SaskEnergy 2011 ANNUAL REPORT

VISION, MISSION & VALUES

VISION

We create superior value through innovative energy solutions.

MISSION

Our team of dedicated employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

VALUES

Safety: We never compromise the safety of our employees and the public.

Community: We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.

Recognition: We take time to recognize the individual and team contributions of our employees.

Accountability: We are accountable for our decisions, our actions and the results.

Spirit: We create a positive, welcoming and enjoyable work environment that supports employees in achieving their career goals and life balance.

Communication: We have open, honest and respectful communication that builds strong relationships.

Integrity: We are honest, respectful and apply high ethical standards.

TABLE OF CONTENTS

2 Corporate Profile

5 Letter of Transmittal

6 Minister's Message

7 Chair's Message

8 President's Message

11 Financial and Operating Highlights

12 Five-Year Operating Summary – Distribution

13 Five-Year Operating Summary – Transmission

14 Corporate Highlights

17 Management's Discussion & Analysis

- 17 Introduction
- 17 Consolidated Financial Results
- 22 Liquidity and Capital Resources
- 23 Impact of IFRS
- 25 SaskEnergy's Strategic Plan and Key Success Measures
- 26 Our Future
- 29 Our Growth
- 31 Our Service
- 34 Our People
- 36 Stakeholder Engagement
- 36 Risk Management
- 38 Critical Accounting Policies and Estimates
- 39 Future Accounting Changes

41 Consolidated Financial Statements

- 41 Management's Responsibility for Financial Statements
- 42 Independent Auditor's Report
- 43 Consolidated Statement of Financial Position
- 44 Consolidated Statement of Comprehensive Income
- 45 Consolidated Statement of Changes in Equity
- 46 Consolidated Statement of Cash Flows

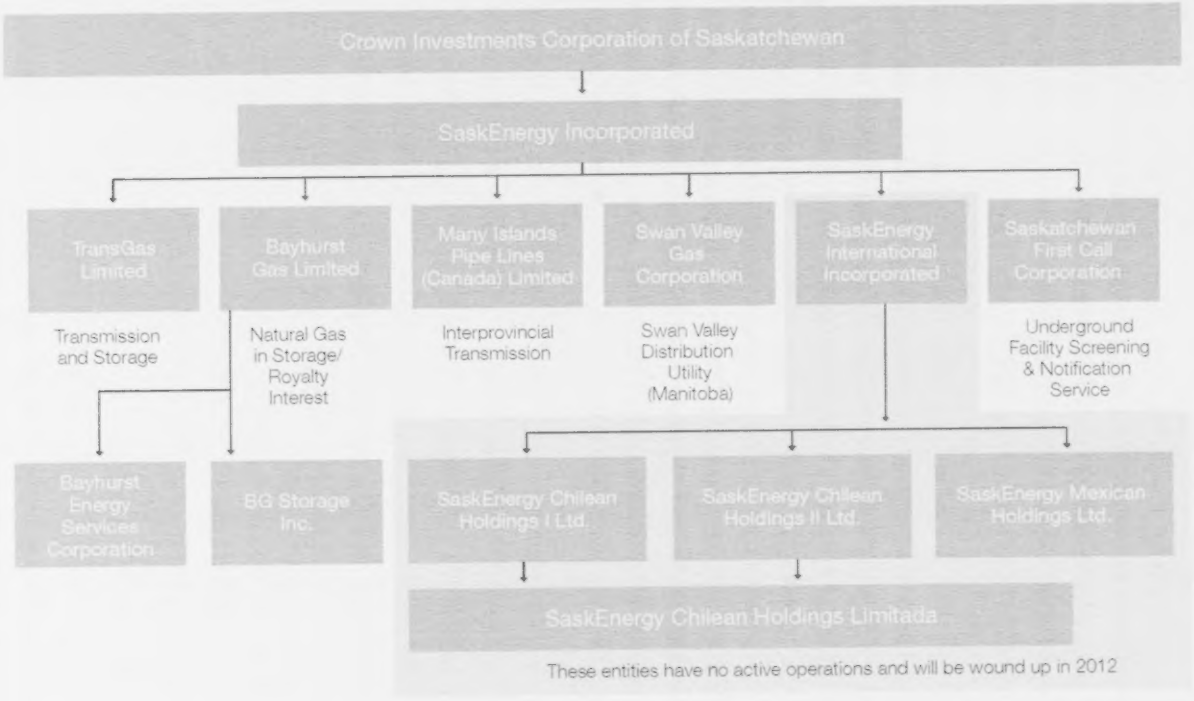
47 Notes to the Consolidated Financial Statements

76 Corporate Governance

- 76 Board of Directors
- 80 Executive Committee
- 82 Corporate Governance Disclosure
- 83 Glossary of Key Success Measures

88 Supplementary Information

CORPORATE PROFILE


Crown Investments Corporation of Saskatchewan
SaskEnergy Incorporated
TransGas Limited
Bayhurst Gas Limited
Many Islands Pipe Lines (Canada) Limited
Swan Valley Gas Corporation
SaskEnergy International Incorporated
Saskatchewan First Call Corporation
Transmission and Storage
Natural Gas in Storage/ Royalty Interest
Interprovincial Transmission
Swan Valley Distribution Utility (Manitoba)
Underground Facility Screening & Notification Service
Bayhurst Energy Services Corporation
BG Storage Inc.
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Mexican Holdings Ltd.
SaskEnergy Chilean Holdings Limitada
These entities have no active operations and will be wound up in 2012

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel and SGI) and various commercial investments.

SaskEnergy's main business is the natural gas Distribution Utility. SaskEnergy owns and operates the Distribution Utility, which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel, an independent body, prior to receiving Provincial Cabinet approval.

SaskEnergy's corporate structure includes six wholly owned and five indirect wholly owned subsidiaries, as follows:

Bayhurst Gas Limited (Bayhurst) owns, produces and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta.

Bayhurst Energy Services Corporation (BESCO), a wholly owned subsidiary of Bayhurst Gas Limited, is an energy services company. BESCO owns a 50 per cent interest in a natural gas processing plant in southeastern Saskatchewan, which is operated through an unincorporated joint venture with ATCO Midstream Limited.

BG Storage Inc., a wholly owned subsidiary of Bayhurst Gas Limited, owns a 50 per cent interest in a natural gas storage business, which is operated through an unincorporated joint venture with Faro Energy Ventures Ltd.

Many Islands Pipe Lines (Canada) Limited (MIPL) is a transmission company that owns nine transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba, all of which connect to the TransGas system. MIPL is regulated by the National Energy Board.

Saskatchewan First Call Corporation (*Sask 1st Call*) provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can contact *Sask 1st Call* to request the location of pipeline- and non-pipeline-related facilities of its subscribers. *Sask 1st Call's* rate structure is intended to recover all operational costs and operate on a break-even basis.

SaskEnergy International Incorporated (SEII) and its subsidiaries have no active operations as of December 31, 2011, and will be wound up in 2012. SaskEnergy completed divestitures related to investments outside of Canada in 2011. This included its investment in Chile (Gas Sur) and Mexico (Igasamex).

Swan Valley Gas Corporation (SVGC) owns a natural gas distribution utility in the Swan Valley area of western Manitoba. SVGC serves customers in the towns of Swan River, Benito and Minitonas. SVGC is regulated by the Manitoba Public Utilities Board.

TransGas Limited (TransGas) owns and operates the Transmission Utility and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission pipeline system. TransGas' transportation and storage rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.

GROWTH

We have added more than 26,000 customers to our natural gas distribution network since 2007, including 5,803 in 2011.

LETTER OF TRANSMITTAL

March 31, 2012

Her Honour the Honourable Vaughn Solomon Schofield, S.O.M., S.V.M.
Lieutenant Governor of Saskatchewan

Madam:

I respectfully submit the annual report of SaskEnergy Incorporated for the year ended December 31, 2011, in accordance with *The SaskEnergy Act*. The Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.

Honourable Dustin Duncan
Minister Responsible for SaskEnergy

MINISTER'S MESSAGE

On behalf of Premier Brad Wall and the Government of Saskatchewan, I welcome you to the 2011 SaskEnergy Annual Report.

Saskatchewan continues to be an economic leader, both nationally and internationally, and SaskEnergy plays a key role in supporting sustainable growth in our province.

Once again in 2011, SaskEnergy fulfilled its Crown corporation mandate by delivering high quality, accessible and affordable services while investing in core business operations and services within Saskatchewan. These actions continue to create opportunities, not only for SaskEnergy and its subsidiaries, but also the company's wide range of contractors, suppliers and partner groups.

Into the future, SaskEnergy will build on its successes throughout the organization, while continuing to evaluate the business horizon and ensure that the company is meeting the changing needs of its customers across Saskatchewan.

I would like to thank all SaskEnergy employees, management and the Board of Directors for their contributions to the company in 2011. The many accomplishments outlined within this Annual Report are the result of your dedication and I am confident that SaskEnergy will continue to meet its corporate goals in the future, thanks to your collective efforts.

Sincerely,

Honourable Dustin Duncan
Minister Responsible for SaskEnergy

CHAIR'S MESSAGE

On behalf of the SaskEnergy Board of Directors, it is my pleasure to join the Minister Responsible for SaskEnergy, the Honourable Dustin Duncan, in presenting the 2011 SaskEnergy Annual Report.

The Board was pleased with the company's 2011 results, including solid financial performance, diligence in maintaining competitive rates, customer satisfaction indicators, and an elevated commitment to safe and reliable service delivery.

Across the company, groups continued to identify and execute on productivity and efficiency opportunities, bringing total savings in this area to $16 million since 2009. These efforts are particularly noteworthy in that they have been achieved amid significant customer growth, while facing the challenges of unprecedented weather across the Province.

The Corporation's business goals are aligned with the Government of Saskatchewan's Crown Sector Priorities. In 2011, SaskEnergy made considerable progress toward these priorities, including the successful divestiture of its international holdings, allowing the Corporation to increase its efforts on Saskatchewan-focused growth.

While the impact of natural gas price environment dynamics will require continued management focus in the coming years, SaskEnergy is fundamentally well-positioned for the future. The Board of Directors is committed to effective oversight and stewardship of SaskEnergy, and thanks the Executive team, management and employees for their contributions this past year. We look forward to another successful year in 2012.

Sincerely,

Robert Pletch
Chair, SaskEnergy Board of Directors

PRESIDENT'S MESSAGE

SaskEnergy's 2011 results reflect continued strong financial and operational performance from across the company. Key corporate indicators — from meeting elevated customer growth demands to customer satisfaction figures (over 90 per cent positive for SaskEnergy and TransGas, respectively) and corporate efficiency measures ($6 million in 2011 savings) — continue to tell us that both our strategic directions and our execution of those strategies are working effectively.

In 2011, economic growth in our province once again benefited SaskEnergy, as we added 5,803 new customers to our distribution network and saw continued strong demand for TransGas transportation services in expanding industries such as potash, oil, and power generation. To continue to fulfill our mandate in this environment of strong economic development, we have maintained a corporate focus on service delivery models which safely and reliably meet customer needs. In so doing, we not only deliver maximum value to our customers, but also continue to achieve the goals outlined in our corporate Business Plan and, by extension, meet the Government of Saskatchewan's established Crown Sector Priorities.

ENHANCING SAFETY INTEGRITY PROGRAMMING

Weather-related incidents, including significant ground shifting in South Regina and flooding in the southeastern part of the Province, created heightened public awareness of natural gas safety in 2011. Across North America, recent safety incidents in the energy industry have also elevated public attention surrounding safe and reliable service.

To enhance our already robust safety programming and integrity systems, we have implemented additional network safety vigilance measures, bringing our total integrity programming efforts to over $79 million in 2012. The safe and reliable operation of our more than 82,000 kilometres of pipeline infrastructure is the primary goal of our people, and the ongoing capital investment and annual system improvement plans reflect this commitment.

While the challenges encountered were significant, I commend our employees for the skill, commitment and professionalism they displayed in responding to these issues and ensuring our company maintains the high levels of public trust we saw reflected in this year's customer surveys.

NATURAL GAS PRICE ENVIRONMENT

The low natural gas commodity pricing provided strong value to natural gas consumers in the Province in 2011, but has also triggered a decline in natural gas drilling. As a result, Saskatchewan faces a need to complement provincial supply with imported natural gas, to meet the growing needs of customers.

To ensure continued supply at competitive rates, we continue to develop commercial solutions to maximize the cost-effective use of TransGas' existing infrastructure, together with capital projects to expand our capacity through other interconnection points in such areas as Alberta, Manitoba and the United States.

EFFICIENCY FOCUS — KEY FUNDAMENTAL

Meeting our efficiency and process improvement targets is fundamental to effective customer service delivery. Between 2009 and 2011, SaskEnergy achieved a total of $16 million in efficiency gains. These efforts involved a number of initiatives, from resource management of employee and external contractor capacity to technology integration, with the goal of meeting customers' daily needs at a high performance level. Together with such Crown collaboration efforts as line-locating, joint trenching and automated meter reading, these resourcing strategies represent cost-effective solutions which benefit Saskatchewan, while acknowledging the importance of safe practices throughout our operations.

Going forward, external best practices will continue to be implemented through procurement and operational efficiency reviews, with external expertise leveraged for specialized initiatives, including the Customer Information System project.

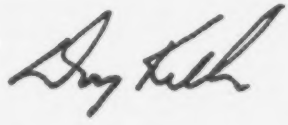
USING TECHNOLOGY TO IMPROVE CUSTOMER SERVICE

While corporate efficiency and productivity gains have generated significant savings in recent years, future results in this area will be tied to our ability to successfully adopt new technologies. In 2011, work continued on our new Customer Information System, which will be rolled out in 2012, while an Advanced Metering Infrastructure project (joint with SaskPower) was also formally initiated. Successfully implemented, these major technology deployments will enable SaskEnergy to serve our customers more effectively, while significantly streamlining our processes and work flows.

As we look toward the future, we also look at the foundation upon which we are building. In that analysis, I see several strengths — the experience of our leadership team, ongoing support of our customers, our willingness to take the lead in environmental and diversity initiatives, and the clear business direction we receive from the SaskEnergy Board of Directors.

Above all else, our continued success is due to the engagement of the more than 1,000 skilled and hard-working SaskEnergy and TransGas employees across the Province. Along with the other members of the SaskEnergy Executive team, I consider it a privilege to be a part of the excellent work done by these teams across Saskatchewan last year and I look forward to doing so once again in 2012.

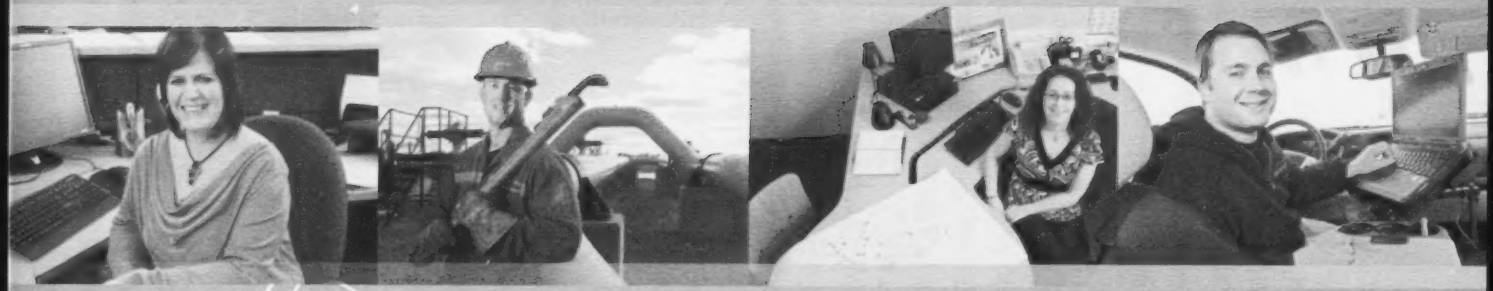
Sincerely,



Doug Kelln
President and Chief Executive Officer, SaskEnergy

CUSTOMER SERVICE

Our dedicated employee team helped SaskEnergy and TransGas maintain unprecedented customer satisfaction levels in 2011.



FINANCIAL AND OPERATING HIGHLIGHTS

CONSOLIDATED FINANCIAL INFORMATION[1]	2011	2010	2009	2008	2007
($ millions)					
Commodity sales	294	276	451	432	400
Gas marketing sales	277	386	446	576	485
Delivery revenue	187	185	184	175	167
Transportation and storage revenue	77	77	80	77	82
Customer capital contributions	43	20			
Other	12	9	49	46	37
Total revenue	890	953	1,210	1,306	1,171
Commodity cost of gas sold	327	305	418	470	373
Gas marketing cost of gas sold	253	328	417	539	450
Other expenses	284	270	282	267	260
Total expenses	864	903	1,117	1,276	1,083
Net income	26	50	93	30	88
Dividend	39	49	51	43	53
Total assets	1,924	1,858	1,587	1,561	1,411
Property, plant and equipment (net)	1,395	1,301	1,004	945	978
Capital expenditures	172	144	130	114	100
OPERATING STATISTICS					
Distribution volumes *(Petajoules)*					
Residential/Farm	34	34	37	36	33
Commercial	29	30	31	30	29
Industrial	82	82	62	72	70
TOTAL	145	146	130	138	132
Transmission volumes *(Petajoules)*					
Domestic	226	215	205	216	208
Export	5	24	62	81	121
TOTAL	231	239	267	297	329
Number of customers					
Distribution	358,363	352,560	347,327	342,606	336,512
Transmission	137	135	132	129	129

[1] Certain of the prior year's amounts have been reclassified to conform to the current year's presentation.
[2] 2011 and 2010 amounts reported as under International Financial Reporting Standards (IFRS); 2009 and earlier are reported under Canadian generally accepted accounting principles (GAAP).

FIVE-YEAR OPERATING SUMMARY – DISTRIBUTION

	2011	2010	2009	2008	2007
Sales in million cubic metres[1]	3,803	3,794	3,415	3,675	3,498
Residential annual average usage *(cubic metres)*[2]	2,851	2,856	3,414	3,303	3,153
Degree days[3]	5,564	5,531	6,227	5,990	5,700
PIPELINE *(kilometres)*					
Distribution Utility					
SaskEnergy Incorporated	67,692	67,342	67,046	66,709	66,340
Swan Valley Gas Corporation	120	120	120	120	120
TOTAL	67,812	67,462	67,166	66,829	66,460

[1] Retail, industrial and natural gas marketing.
[2] The prior year amounts have been reclassified to conform to the current year's presentation.
[3] A unit measuring the extent to which the temperature falls below 18° Celsius. In a normal year, the degree days are 5,537.

FIVE-YEAR OPERATING SUMMARY – TRANSMISSION

	2011	2010	2009	2008	2007
Peak day natural gas flows *(Petajoules)*	1.09	1.07	1.19	1.50	1.49
Date of peak day flow	Jan. 31	Jan. 7	Mar. 11	Jan. 28	Feb. 14
Storage cavern sites	7	8	8	8	8
Storage caverns	27	27	26	26	26
Storage field sites*	3	3	3	3	3
Producing field sites*	2	1	1	1	1
PIPELINE *(kilometres)*					
TransGas Limited					
Transmission	14,048	13,889	13,803	13,592	13,573
Gathering	202	202	199	199	197
Many Islands Pipe Lines (Canada) Limited	435	435	435	435	435
Bayhurst Gas Limited	113	113	113	113	113
TOTAL	14,798	14,639	14,550	14,339	14,318
COMPRESSOR STATIONS					
TransGas Limited	24	22	22	22	22
Bayhurst Gas Limited	3	3	3	4	4
TOTAL	27	25	25	26	26
COMPRESSION HORSEPOWER					
TransGas Limited	85,120	82,250	81,100	82,200	82,200
Bayhurst Gas Limited	6,300	6,300	6,300	6,835	6,835
TOTAL	91,420	88,550	87,400	89,035	89,035

*Includes Bayhurst Gas Limited.

CORPORATE HIGHLIGHTS

OUR FUTURE

Seeking Alberta Supply Transportation Solutions

With Saskatchewan natural gas drilling rates declining throughout the last few years, TransGas has sought ways to leverage its existing pipeline infrastructure to ensure continued future supply to the Province. Projects like the TransGas Nova Inventory Transfer to TransGas Energy Pool (NIT to TEP) Alberta Receipt Service not only created a streamlined process for commercial customers acquiring gas from Alberta, but also helped minimize capital and operating costs. By reducing the need for new pipelines, these innovative solutions will play a key role in the company's ability to maintain competitive rates in the coming years.

Rosetown Waste Heat Recovery Unit Operational

In November, the waste heat recovery (WHR) system at the TransGas Rosetown Compressor Station was successfully synchronized with the SaskPower electrical grid, with operational turnover taking place at 2011 year-end. With private sector expertise, the Rosetown project was initiated in 2009 as the first step toward electrical "net zero" status for SaskEnergy, through the use of innovative technology that converts waste heat from compressor stations into emission-free electricity, which can then be sold to SaskPower. The Rosetown system alone is expected to offset 20 per cent of the Corporation's electrical use, with WHR technology being introduced at the TransGas Coleville Compressor Station in 2012.

Leveraging Commodity Expertise

SaskEnergy's commodity marketing activities have evolved to include refilling/cycling natural gas inventories at corporate facilities, so that these inventories can be sold in the future. In 2011, this commodity expertise generated net revenues of $24 million, benefiting both the Corporation and its customers. In response to the low natural gas price environment, the next phase of this strategy will include creating additional value through all market cycles. This approach will allow SaskEnergy to continue to make maximum use of its infrastructure advantages for the benefit of Saskatchewan people.

OUR GROWTH

Expanding Customer Base

The sustained growth of Saskatchewan's population and economy have benefited SaskEnergy, with the five-year period between 2007 and 2011 marking one of the busiest in the company's history. Over that time, the SaskEnergy distribution base grew by 26,446 customers, including 5,803 in 2011, and continued industrial sector strength in the Province contributed to increased domestic demand for natural gas transmission volumes. With continued growth projected on both fronts, effective customer service delivery will remain a key focus for SaskEnergy.

Connecting New Saskatchewan Developments

As Saskatchewan industrial sector demand for natural gas grows, TransGas continues to play a key role in both new system builds and projects to expand existing industrial facilities. Last year, these efforts included installation and commissioning of natural gas service for the Spy Hill power generation plant, supporting a major SaskPower/independent power producer project, potash expansions in the Province, and meeting the needs of expanding enhanced oil recovery operations in northwestern Saskatchewan. Given the large natural gas loads required at these facilities, industrial expansions will continue to represent significant growth opportunities for SaskEnergy and TransGas operations in the future.

New Producer Connections

While the need to secure connections to natural gas supplies in Alberta and other areas will grow in the coming years, establishing new producer connections within Saskatchewan is also a key corporate strategy toward meeting the Province's supply requirements. To this end, new Saskatchewan receipt point volumes of over 30 Terajoules (TJ) per day were added in 2011, representing approximately five per cent of annual TransGas transport volume.

OUR SERVICE

Distribution Service Upgrade Program

In response to ground shifting caused by excessively wet soil conditions across Saskatchewan, SaskEnergy launched a $6.5 million distribution service integrity enhancement program in 2011. Throughout the construction season, dedicated teams worked in those areas of the Province most susceptible to ground shifting, to upgrade over 2,300 services (approximately 2,000 in Regina and 300 in other communities). The enhanced safety vigilance program will continue to upgrade a further 1,500 to 2,000 customer connections per year through 2020, as part of SaskEnergy's corporate commitment to continued safe and reliable service delivery.

Bayhurst to TransCanada Pipeline Loop

In support of the growing customer demand for natural gas from outside Saskatchewan, TransGas reviewed a number of transmission expansion options and, in 2011, determined a 47-kilometre loop of the existing line between the TransGas Bayhurst interconnect and the TransCanada Pipeline (TCPL) to be the most economical option. Scheduled to be in service in 2012, the new loop and TCPL receipt meter could provide 100 TJ per day of incremental capacity, in support of Saskatchewan's long-term natural gas supply requirements.

Competency Assessment Plan

The Competency Assessment Plan (CAP) underlines SaskEnergy's commitment to safe pipeline operations. Through formal evaluations of worker skill sets and knowledge, CAP aligns SaskEnergy with Canadian Gas Association directions and the growing need to prove competency of individuals working on pipeline facilities. Using a three-year rotating task assessment schedule, CAP evaluates approximately 500 field employees. The program had a successful first year in 2011, with the roll-out of nine CAP tasks, and strong results confirmed that SaskEnergy and TransGas employees are well-trained and prepared to work safely on pipelines. CAP activity will expand in 2012, with the roll-out of assessments on 12 new tasks.

Commitment to Safety

2011 saw SaskEnergy employees work together to deliver the best corporate safety performance in 15 years. The Corporation's 2011 Preventable Vehicle Collision Frequency Rate (PVCR) was its lowest since 1997, while the Total Recordable Injury Rate (TRIR) result was the second-lowest recorded over that time. As well, employee Hazard Near Miss reporting increased significantly in 2011, while SaskEnergy continued to show safety leadership within the industry, developing and utilizing an online contractor safety video in support of WorkSafe Saskatchewan's Mission: Zero campaign.

OUR PEOPLE

Spring Flooding Response

In 2011, significant flooding in the southeastern part of the Province required swift and effective response from both SaskEnergy and TransGas personnel in the area. Co-ordinating with provincial emergency responders and local authorities, these employees secured corporate facilities to withstand the flooding, sought to assist other members of their communities, then worked long hours in difficult conditions to restore service to customers as quickly as possible. As they have done time and time again, SaskEnergy employees responded effectively in difficult conditions.

SaskEnergy and CEP Collective Agreement

In 2011, SaskEnergy and the Communication, Energy and Paperworkers Union (CEP), Local 649, successfully negotiated a new Collective Bargaining Agreement, retroactive to February 1, 2010, and in effect through January 31, 2013. The agreement was the result of dedication and diligence from both bargaining committees, and is an important part of the framework upon which a positive SaskEnergy culture can be maintained in the future.

SaskEnergy Leadership Network

As part of its corporate focus on engaging and developing people, SaskEnergy launched the Leadership Network in 2011, with the primary objective of helping managers and supervisors develop and apply key skills in working with their employees. The Leadership Network engages leaders at all levels in the company, from the Executive team and senior leaders to front-line supervisors, through regular and open dialogue and discussions. With the foundation of the network established in 2011, the company continues to move forward to reinforce these key leadership and coaching roles to provide employees with the time, tools, training and communication they need to succeed in their daily work.

INTEGRITY

Our primary corporate goal is the continued safe and reliable operation of our infrastructure throughout Saskatchewan.

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected SaskEnergy's consolidated financial condition and performance for the year ended December 31, 2011. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects, enabling readers to view SaskEnergy from the perspective of management.

The MD&A is presented as at February 29, 2012, and should be read in conjunction with the Corporation's audited consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The Corporation's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All comparative figures included in these consolidated financial statements have been restated in accordance with IFRS. Reconciliations and descriptions of the impact of the transition from Canadian GAAP to IFRS on the Corporation's consolidated financial statements are included in this MD&A as well as in the consolidated financial statements and accompanying notes.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks, which are described in the Risk Management section of the MD&A. All forward-looking statements reflect the Corporation's best estimates and assumptions based on information available at the time the statements were made. However, actual results and events may vary significantly from those included in, contemplated by or implied by such statements.

The Corporation's financial results are subject to fluctuations, especially given the volatility of natural gas prices. The Corporation uses the following non-IFRS measures to compare financial performance from period to period: realized margin on commodity sales and realized margin on gas marketing sales. Each measure removes the impact of market value adjustments and the revaluation of natural gas in storage as these market value adjustments are unrealized and subject to considerable variation based on market prices of natural gas. These are non-IFRS measures as there is no standardized definition and may not be comparable to similar measures presented by other entities.

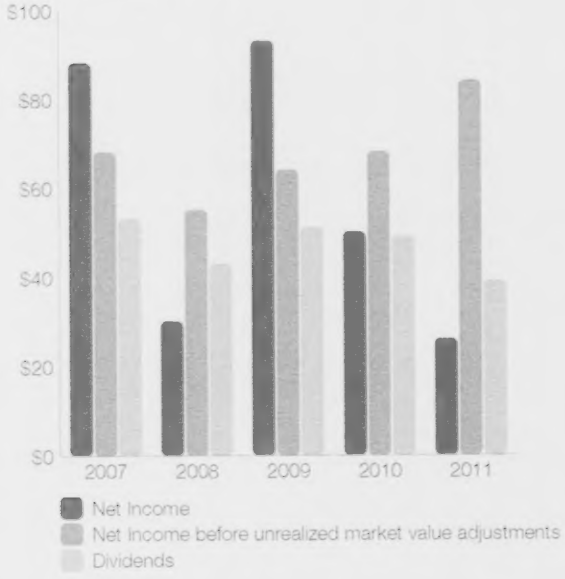
CONSOLIDATED FINANCIAL RESULTS

(millions)	2011	2010
Net income before unrealized market value adjustments	$ 84	$ 68
Impact of fair value adjustments	(34)	3
Revaluation of natural gas in storage	(24)	(21)
Consolidated net income	$ 26	$ 50

For 2011, income before unrealized market value adjustments was $84 million, an improvement of $16 million from the prior year.

This was primarily due to an increase in customer contribution revenue, as the Corporation completed several large projects related to new service connections for customers during the year. This positive result included the recognition of a net loss of $8 million on the disposition of the Corporation's international investments in Chile and Mexico. After the inclusion of non-cash market value adjustments, consolidated net income totaled $26 million, as low market prices for natural gas resulted in $58 million of unfavourable market value adjustments at year end. During 2011, the Corporation declared $39 million in dividends to CIC.

Financial Performance



Natural Gas Prices

Natural gas prices are set in an open market and are influenced by a number of variables including production, demand, natural gas storage levels and economic conditions. Given the high demand for natural gas to heat homes and businesses during the cold winter months and the demand for natural gas to generate incremental electricity for air conditioning in the summer, weather has the greatest impact on natural gas prices in the near term. Due to the high degree of uncertainty associated with weather, natural gas prices are typically very volatile.

2011 marked the third consecutive year of relatively low natural gas prices, resulting from strong production of natural gas trapped in shale rock formations. Despite the sustained low natural gas prices in North America, record production rates added further supply growth throughout the year, leading to record inventory levels in both Canada and the United States. In Saskatchewan, strong demand and declining conventional natural gas production due to low natural gas prices resulted in the Province transitioning to a net importer of natural gas. However, the abundance of natural gas supply in Western Canada, along with the established pipeline infrastructure, is facilitating this transition by meeting the incremental Saskatchewan demand primarily with imports from Alberta.

Natural gas market prices traded in a relatively tight range through most of 2011, until moving lower late in the year. In Canada, the monthly settlement price remained within a $0.55 per GJ range. The following is a chart of AECO natural gas prices. Located in Alberta, AECO is the major natural gas hub in Canada. Natural gas in Saskatchewan is priced at a differential to the AECO price, usually between $0.05 per GJ and $0.20 per GJ higher than AECO.

Natural Gas Prices

Revenues

Low natural gas prices and customer capital contribution revenues had the most significant impacts on SaskEnergy's revenues in 2011. Total revenues were $63 million lower in 2011 as the market price of gas remained low relative to recent historical prices. While relatively stable market prices through most of 2011 allowed the Corporation to maintain its commodity rate, it resulted in fewer opportunities for the Corporation's gas marketing division to generate revenue compared to previous years. Customer capital contributions partially offset the impact of lower gas sales revenue as they added $43 million to the Corporation's total revenue in 2011, an increase of $23 million from the prior year. Given the cyclical nature of these contributions, significant year-to-year variances in revenue are to be expected.

(millions)	2011	2010
Natural gas sales	$ 571	$ 662
Delivery	187	185
Transportation and storage	77	77
Customer capital contributions	43	20
Other	12	9
	$ 890	$ 953

Natural Gas Sales and Purchases

The Corporation operates both a rate-regulated commodity sales activity and a non-regulated gas marketing activity. Each activity is distinctly managed by the Corporation and, as such, the MD&A will address these natural gas sales and purchases separately.

Commodity Margin

(millions)	2011	2010
Commodity sales	$ 294	$ 276
Commodity purchases	(284)	(275)
Realized margin on commodity sales*	10	1
Impact of fair value adjustments	(43)	(30)
Loss on commodity sales	$ (33)	$ (29)

**Refer to non-IFRS measures*

SaskEnergy's commodity rate, approved by Provincial Cabinet based on the recommendations of the SRRP, is designed to recover the associated costs of the natural gas sold to its distribution customers without earning a profit, nor incurring a loss. Each year, the rate is set on November 1, with a review and opportunity to change on April 1. While the commodity rate remains constant between each review, the costs incurred by the Corporation to acquire natural gas in the open market fluctuate based on the forces of supply and demand. For rate-setting purposes, SaskEnergy accumulates differences between the commodity revenue earned and the cost of natural gas sold in a Gas Cost Variance Account (GCVA). The balance in the GCVA, which is not recorded for financial reporting purposes, is either recovered from or refunded to customers as part of future commodity rates.

To assist in achieving its goal of delivering stable and competitive commodity rates to its customers, SaskEnergy reduces the impact of the volatility of natural gas purchase prices through a natural gas price risk management strategy. To ensure a secure supply of natural gas, SaskEnergy may contract for physical delivery of natural gas using non-financial derivatives, referred to as forward contracts. The purchase price contained in these forward contracts is typically based on a floating index price which will be determined by the price of natural gas in the future delivery period. SaskEnergy may use other natural gas derivative contracts, primarily natural gas price swaps and natural gas price options, to manage the future purchase price of natural gas. As derivative instruments, these natural gas contracts are recorded at fair value until the date of settlement. Changes in fair value, which will vary with future natural gas prices and price differentials, are recorded in commodity purchases. Upon settlement of the natural gas contract, the amount paid or received by SaskEnergy is recorded in commodity purchases. At year end, fair value adjustments on derivative instruments increased commodity purchase costs by $43 million. The unfavourable fair value adjustment was primarily due to natural gas price swap contracts, with an average purchase price of $4.24 per GJ compared to an average market price of $3.08 per GJ at December 31, 2011.

The realized margin on commodity sales removes the impact of these unrealized fair value adjustments, as they can fluctuate significantly and do not necessarily represent the amount that will be paid upon settlement of the related natural gas contract. On a realized basis, the Corporation recorded a margin of $10 million, as its commodity revenues exceeded natural gas purchase costs in the period. Natural gas prices were both uncharacteristically low and stable throughout 2011, which led to an average cost of gas of $4.28/GJ. The differential between this average cost and the approved commodity rate of $4.55/GJ resulted in the realized margin of $10 million in 2011.

Gas Marketing Margin

SaskEnergy's gas marketing activity employs several different strategies, all of which attempt to optimize storage and transportation capacity available to the Corporation to earn a positive margin, as well as provide a financial benefit to SaskEnergy and TransGas customers. The most significant gas marketing strategy is focused on utilizing the Corporation's storage field in west-central Saskatchewan. The decline in natural gas market prices over the past few years has created an opportunity for SaskEnergy to purchase relatively low-priced natural gas to inject into this storage facility with the intent to subsequently sell it at a profit. During off-peak periods the Corporation also optimizes the

transmission and storage capacity by purchasing and selling natural gas in the open market to generate additional margins, which benefits customers by reducing rate pressure. Lastly, SaskEnergy provides natural gas supply options to larger end-use customers in Saskatchewan through non-regulated contract sales.

(millions)	2011	2010
Gas marketing sales	$ 275	$ 356
Gas marketing purchases	(234)	(309)
Realized margin on gas marketing sales*	41	47
Impact of fair value adjustments	7	32
Revaluation of natural gas in storage	(24)	(21)
Margin on gas marketing sales	$ 24	$ 58

*Refer to non-IFRS measures

The realized margin on gas marketing sales, which removes fair value adjustments and the revaluation of natural gas in storage, was $41 million. The low market price for natural gas allowed for continued positive returns from the operation of the Corporation's storage facility in west-central Saskatchewan. However, the stability of prices throughout 2011 produced fewer opportunities to optimize transmission and storage capacity during off-peak periods and resulted in a realized margin $6 million below 2010 results.

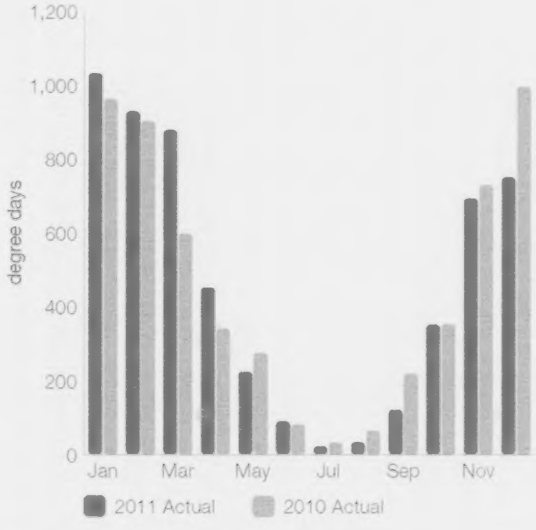
The transactions undertaken to implement the Corporation's gas marketing strategies result in additional risk exposure. Given the volatility of market prices, the greatest exposure is to natural gas price risk. Similar to the discussion related to the commodity margin, the Corporation may enter into various natural gas contracts in order to manage natural gas price risk for its natural gas marketing activities. These natural gas contracts are derivative instruments and, as such, are recorded at fair value until the date of settlement. Changes in fair value are recorded in either gas marketing sales or gas marketing purchases, depending on the specific natural gas contract. Once settled, the amount paid or received for the contract is recorded in gas marketing sales or gas marketing purchases, as appropriate. At year end, fair value adjustments on derivative contracts increased the margin on gas marketing by $7 million. The favourable fair value at December 31, 2011 was primarily due to natural gas sales contracts, with an average selling price of $4.43 per GJ, compared to an average market price of $3.08 per GJ.

At year end, the Corporation measured the net realizable value of gas marketing natural gas in storage, based on forward market prices. The decline in the market price at year end also translated to low prices on the forward curve. The result is that the net realizable value for gas marketing natural gas in storage has fallen below cost. At December 31, 2011, the downward revaluation totaled $45 million, an increase of $24 million from the revaluation at the end of the prior year. This revaluation is a result of the fall of market prices in late 2011. If natural gas prices rise in the future, SaskEnergy will record an upward revaluation to recognize the increase in net realizable value, up to a maximum of the original cost. Otherwise, the $45 million will result in improved margins in the future, as contracts are settled by virtue of the lower carrying value of natural gas in storage.

Delivery Revenue

Delivery revenue of $187 million was an increase of $2 million over the prior year. Delivery revenue is heavily influenced by both the weather and the number of customers served by the Corporation.

Weather



The Corporation experienced another strong year for customer growth with over 5,800 new residential, business and industrial customers added to its distribution system. The increased customer base generated an additional $3 million through a combination of basic monthly charge revenue as well as additional delivery volume. Despite the customer growth, the volume of natural gas delivered per

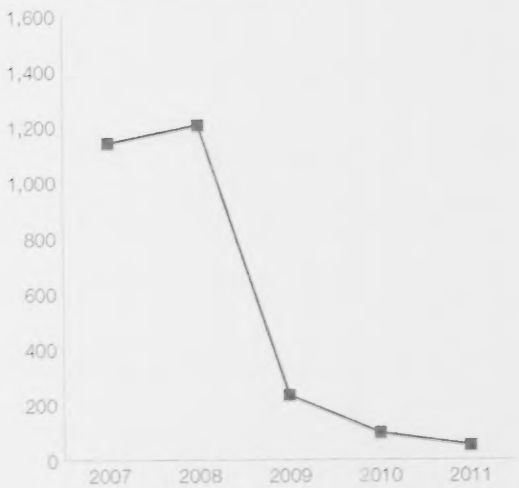
customer continued its downward trend (0.3 per cent decline from 2010 to 2011), given the focus on energy conservation and advances in technology, which resulted in a $1 million decline in revenue. The Corporation encourages energy conservation through its involvement in numerous energy saving initiatives, such as the SaskEnergy Home Energy Legacy Project.

The weather in 2011 was only one per cent colder than normal, based on weather data for the past 30 years. Although the year began with an exceptionally cold first quarter, mild weather in December resulted in the small variance from normal. As the weather experience in 2010 was also normal, the weather impact on delivery revenue, as compared to last year, was insignificant.

Transportation and Storage Revenue

Transportation and storage revenue remained steady at $77 million, similar to results from the prior year. Deliveries by the transmission system to customers within Saskatchewan, or to points where natural gas is subsequently exported, are based on the volume of receipts onto the system as well as withdrawals from storage. Natural gas production in Saskatchewan continued to decline in 2011 as low natural gas market prices resulted in low drilling activity. The falling Saskatchewan natural gas production translated to a $1.5 million drop in both receipt revenues and export delivery revenues as lower volumes are being exported from the Province. Offsetting these declines was a $1.5 million increase in contracted capacity for deliveries within Saskatchewan to meet the growing demand from Saskatchewan's industrial sector.

Natural Gas Wells Drilled



During the year, the Corporation introduced a NIT to TEP receipt service as a response to the declining Saskatchewan natural gas production. This service allows the Corporation to manage the flow of gas into the Province from Alberta to optimize system operations, as well as minimize net costs and capital expenditures. This service is operated on a cost recovery basis, with these charges adding $0.5 million to revenue in the year while also increasing the Corporation's net costs.

Storage revenue saw a small increase of $0.5 million in 2011 as customers increasing demand for storage meant higher withdrawal volumes, leading the Corporation to continue to add to its storage capacity.

Customer Capital Contributions

The Corporation receives capital contributions from customers in exchange for the construction of new, customer-specific service connections. Upon transitioning to IFRS in 2011, the Corporation changed treatment of these contributions and now recognizes the contribution, less potential refunds, as revenue once the related property, plant, and equipment is available for use. Prior to the transition, the contributions were included in property, plant, and equipment and amortized along with the constructed asset.

The addition of these contributions to revenue introduces an additional form of volatility to the Corporation's earnings as the need for new customer-specific connections can be cyclical and dependent on many variables. Customer capital contributions added $43 million to the Corporation's revenue in 2011, bolstered by two large connections that were completed and put into use. By comparison, $20 million was recognized as revenue in 2010 from customer capital contributions.

Other Revenue

Other revenue, primarily consisting of natural gas processing operations and royalty revenues, increased by $3 million compared to the prior year. The Corporation's natural gas processing operations include gas processing at two separate gas plants and the sale of natural gas liquids from the processing operations. Higher liquids prices, along with an increase in production at the Kisbey Gas Plant, led to an additional $2 million dollars of revenue in 2011. Royalty revenue, a gross overriding royalty on 450 natural gas-producing properties in Saskatchewan and Alberta, was consistent with 2010.

Expenses

Total expenses declined by $34 million to $831 million for 2011. The lower market price of natural gas translated to a large reduction in natural gas purchase costs, but was partially offset by increasing operating costs. During the year, the Corporation sold its international investments for total proceeds of $22 million; however, it recognized an $8 million loss on the sales.

(millions)	2011	2010
Natural gas purchases (net of change in inventory)	$ 580	$ 633
Employee benefits	82	84
Operating and maintenance	83	72
Depreciation and amortization	68	67
Saskatchewan taxes	10	9
Loss on sale of investments in associates	8	–
	$ 831	$ 865

Other Expenses

Employee benefits include the salaries, wages, and benefits provided to the Corporation's employees, less allocations to property, plant and equipment as a result of employee work on capital projects. Total employee benefits expenses decreased by $2 million from 2010 through efficiency realization, as well as increased work on capital projects, which led to an increase in additional allocations to property, plant and equipment in 2011. The Corporation had several significant capital projects ongoing during 2011, including development work on a new Customer Information System and increased spending on system integrity projects.

Operating and maintenance expenses of $83 million were $11 million higher than 2010, as third-party transportation costs significantly increased due to rate increases and volume increases from the new transportation service offered in 2011. Additionally, the increased level of service activity led to a greater need for contractors, while the higher volumes at the natural gas processing plants resulted in increased operating costs.

Capital spending increased by $28 million in 2011, but led to only a $1 million increase in depreciation and amortization expense. A significant portion of the increased capital spending in 2011 resulted from projects which are still under way, and therefore have not recognized any depreciation for the year. Saskatchewan taxes, which include corporate capital taxes paid to the Province and grants in-lieu of taxes paid to municipalities, were consistent with the prior year.

Net Finance Expense

(millions)	2011	2010
Finance income	$ 5	$ 4
Impact of fair value adjustments	2	1
Finance expenses	(40)	(43)
Net finance expense	$ (33)	$ (38)

Net finance expense declined by $5 million in 2011, as interest expense fell while earnings on debt retirement funds increased. Overall, the total debt increased by $75 million in 2011. However, by taking advantage of low short-term interest rates, the Corporation was able to reduce its total interest expense as compared to the prior year. While the balance of debt retirement funds increased throughout the year, the average return on the funds also increased and was the principal reason for the higher finance income in 2011.

LIQUIDITY AND CAPITAL RESOURCES

(millions)	2011	2010
Cash provided by operating activities	$ 195	$ 185
Cash used in investing activities	(150)	(144)
Cash used in financing activities	(25)	(39)
Increase in cash during the period	$ 20	$ 2

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy. Sources of liquidity include Order in Council authority to borrow up to $400 million in short-term loans from the General Revenue Fund and a $35 million uncommitted line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to $1,700 million.

Cash Provided by Operating Activities

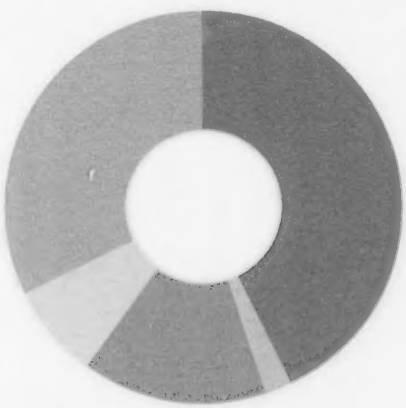
Cash provided by operating activities was $195 million, which was $10 million higher than 2010. Increased commodity sales and delivery revenue due to customer growth, combined with low natural gas market prices throughout 2011, were significant factors in the increase in cash from operations. The Corporation's volume

of natural gas in storage held for resale remained consistent with the prior year, but the value of the gas on hand, before the impacts of the revaluation, decreased by $9 million from 2010. This natural gas in storage was purchased for gas marketing activities and will be held for resale in subsequent periods to generate additional margins and cash flow for the Corporation.

Cash Used in Investing Activities

During 2011, the Corporation utilized $150 million for investing activities, a $6 million increase over 2010. The Corporation increased capital investment in 2011, most notably through work on a new Customer Information System and increased system integrity work. In addition to capital investment in its infrastructure, the Corporation saw an increased level of capital work resulting from contributions received from customers. As the Corporation increased its investment in Saskatchewan in 2011, it also sold its international investments for total proceeds of $22 million.

Total Investment Activities


Pipeline Infrastructure | 43%
Distribution Infrastructure | 32%
Information Systems | 8%
Vehicles & Buildings | 15%
Growth Initiatives | 2%

Cash Provided by Financing Activities

In 2011, the Corporation's financing activities used $25 million, which is $14 million less than in 2010. The Corporation continued to expand its short-term debt position in 2011 as it borrowed an additional $75 million during the year. The primary uses of the Corporation's financing dollars in 2011 were interest payments on its debt, and dividends paid to its parent, CIC. Total dividends paid in 2011 were $52 million, $4 million more than 2010.

IMPACT OF IFRS

Effective January 1, 2011, publicly accountable Canadian entities, including Government Business Enterprises like SaskEnergy, are required to prepare financial information in accordance with IFRS. In addition, the Canadian Accounting Standards Board (AcSB) permitted qualifying entities with rate regulated activities to apply an optional deferral for the adoption of IFRS until January 1, 2012 as the use of regulatory accounting is currently being reviewed by the International Accounting Standards Board, and any changes may significantly affect the IFRS financial statements of rate regulated entities. While this includes many of the Corporation's peers in the natural gas distribution utility and pipeline industries, SaskEnergy does not qualify for this deferral as it is not considered an independently regulated utility.

The Corporation's previous consolidated financial statements were prepared in accordance with Canadian GAAP. A detailed discussion of the transition to IFRS is included in Note 31 of the consolidated financial statements. The impact of the transition to IFRS on SaskEnergy's equity was as follows:

(millions)	As at Jan 1, 2010	As at Dec 31, 2010
Province's equity under Canadian GAAP	$ 475	$ 462
Customer capital contributions	157	172
Deemed cost	7	6
Major inspections	(3)	(4)
Decommissioning liabilities	(7)	(7)
Province's equity under IFRS	$ 629	$ 629

For SaskEnergy, the main difference between Canadian GAAP and IFRS relates to the treatment of customer capital contributions. Under Canadian GAAP, the Corporation netted customer capital contributions against property, plant and equipment and amortized these contributions on a straight-line basis over the estimated useful life of the related asset. Under IFRS, customer capital contributions are recognized as revenue, either immediately or over a specified period. If only one service is identified, the entity recognizes the

revenue when the service is performed. If an ongoing service is identified, the revenue is recognized over the period specified by the agreement. If the agreement does not specify a period, the revenue is recognized over a period no longer than the useful life of the related asset. Customer capital contributions received by SaskEnergy relate to the initial connection to the Corporation's distribution and transmission systems and are recognized as revenue once the related property, plant and equipment is available for use. On transition, this change increased property, plant and equipment by $177 million, decreased accounts payable by $14 million, increased deferred revenue by $34 million and increased retained earnings by $157 million.

As part of SaskEnergy's Strategic Plan, the Corporation monitors its financial health based on several key success measures and reports these results annually as part of its annual report. The following provides a comparison of these key success measures as determined under both Canadian GAAP and IFRS for the year ended December 31, 2010:

Strategic measure	Target	Canadian GAAP Actual	IFRS Actual
Financial Health			
Debt to equity ratio	68/32	66/34	59/41
Rate of return on equity	12.9%	11.8%	10.8%
Income before unrealized market value adjustments (millions)	$ 58	$ 55	$ 68
Capital investment (millions)	$ 103	$ 109	$ 144

Under IFRS, the 2010 income before unrealized market value adjustments improved $13 million when compared to Canadian GAAP, largely due to the recognition of $20 million in customer capital contributions as revenue. The adoption of IFRS will introduce a certain level of volatility to the Corporation's operating results, particularly given the treatment of customer capital contributions. As at December 31, 2010, the transition to IFRS increased the Corporation's equity $167 million, which resulted in a significant improvement in the debt ratio. Conversely, the increase in equity decreased the rate of return on equity from 11.8 per cent under Canadian GAAP to 10.8 per cent under IFRS. Capital investment has increased $35 million as under IFRS the Corporation no longer reports this measure net of customer capital contributions. As a result of the impacts of the transition to IFRS the Corporation has adjusted its debt ratio target to 57 per cent for 2011.

Outlook

In the upcoming year, the Corporation plans to spend $258 million on capital expenditures, before customer capital contributions. The Corporation will also have $578 million in anticipated financial obligations coming due during 2012: $314 million short-term debt, $101 million accounts payable, $9 million dividends payable, $65 million derivative instruments and $89 million of long-term debt principal and interest. The Corporation is well-positioned to fund these capital expenditures and financial obligations through its consistent operating cash flows and debt available through the Province. Given the Province's "AAA" credit rating, the Corporation does not anticipate an issue meeting all of its funding requirements.

SASKENERGY'S STRATEGIC PLAN AND KEY SUCCESS MEASURES

SaskEnergy's 2011 Business Plan was based on the Corporation's established Strategic Plan. The Business Plan contains four key mandates — Our Future, Our Growth, Our Service and Our People — that support the vision, mission and values of the Corporation and play an important role in helping employees determine how their everyday work and effort contribute to the Strategic Plan and overall direction of the Corporation.

SaskEnergy's four strategic mandates play a vital role in the Corporation's business planning and reporting. Each year, SaskEnergy comprehensively sets, measures and reports targets for all aspects of its business according to the highest standards — those it sets for itself to create superior value through innovative energy solutions.

The 2011 SaskEnergy Annual Report reflects the Corporation's efforts to demonstrate best practices in corporate and financial reporting. SaskEnergy benchmarks its activity against best-practice industry standards through a reporting scorecard aligned with the Strategic Plan. Part of the 2011 MD&A is based on the key success measures found within the scorecard.

This scorecard's 31 key success measures, representative of SaskEnergy's four strategic mandates, monitor and direct organizational performance.

The targets for these key success measures were established in the 2011 Business Plan. The Our Future mandate measures are in place to reinforce the Corporation's commitment to achieving sustainable operations within the Province. The Our Growth measures reflect the Corporation's Saskatchewan-based growth initiatives and development of new core and non-core business ventures. The Our Service measures are in place to reflect the Corporation's commitment to providing safe and reliable service and customer service excellence. Finally, the Our People measures are designed to ensure the future success of the Corporation through a safe, engaged, productive and diverse workforce.

The scorecard provides an all-inclusive picture of the Corporation's 2011 financial results and important operational information about SaskEnergy and its subsidiaries.

The future year scorecard targets within the key success measures have been assessed and reflect the 2012 Business Plan.

OUR FUTURE

Strategic Measure	2010 Actual	2011 Actual	2011 Target	2012 Target	2013 Forecast	2014 Forecast
Financial Health						
• Debt/Equity Ratio	59/41	60/40	57/43	57/43	57/43	57/43
• Rate of Return on Equity[2]						
◦ Regulated Utility Operations	New for 2011	6.5%	8.9%	8.9%	8.9%	8.9%
◦ Consolidated	10.8%	13.6%	12.8%	9.0%	10.1%	10.4%
• Net Income Before Market Value Adjustments (millions)	$68	$84	$87	$65	$77	$83
Community Investment						
• Projects Supported	1,193	1,121	1,300	1,300	1,300	1,300
• Communities Impacted	345	314	270	270	270	270
• Total Contracts – Percentage of Aboriginal Labour Content	12%	12%	12%	12%	13%	14%
Environmental						
• Customer Efficiency Programs						
◦ Number of Customers Impacted	10,936	9,212	6,500	6,500	6,500	6,500
• Internal Energy Efficiencies						
◦ in Terajoules	290.0	38.7	65.5	55.5	37.0	37.0
◦ in $ (millions)[3]	$1.14	$0.16	$0.26	$0.22	$0.15	$0.15
• GHG Reductions						
◦ % of "Go Green" Regulatory Target Achieved[4]	New for 2011	71%	78%	79%	81%	84%

[1] All measures included in the Financial Health section have been affected by the adoption of International Financial Reporting Standards (IFRS). The targets for the measures were set prior to the final decision on the treatment of customer contributions. The CIC Board subsequently approved revised Financial Health targets for 2011.

[2] The Rate of Return on Equity measure for the Distribution Utility fluctuates because it is based on the calendar year, and rates are set based on a test year and includes non-regulated activities such as contract industrial and contract storage sales. The TransGas Rate of Return on Equity measure does not include Coleville Processing Plant results.

[3] Calculated at $4/GJ.

[4] The 2011 results include CO_2 reductions of 5,850 tonnes associated with the TransGas Rosetown waste heat recovery project; however, these GHG credits belong to SaskPower, as specified in the Power Purchase Agreement.

Financial Health

SaskEnergy's financial health is based on the Corporation maintaining an appropriate capital structure while providing reasonable financial returns to the Owner and competitive rates to customers. The Corporation works hard to balance the interests of both the Owner and its customers — focusing on annual profitability and long-term sustainability.

In 2011, SaskEnergy's debt/equity ratio of 60/40 was below the revised target of 57/43. This was due to reduced 2011 net income, as a result of large market value adjustments from the low market prices of natural gas at year end. Also, SaskEnergy's debt level increased during 2011 as the Corporation exceeded its original capital spending budget.

Rate of Return on Equity for Regulated Utility Operations in 2011 was 6.5 per cent, below the target of 8.9 per cent. This is primarily attributable to lower revenue from gas marketing, as opportunities to optimize corporate storage and transportation assets were limited. For TransGas, the significant decline in natural gas production in the Province was also a factor.

The return on equity on a consolidated basis for 2011, before the effects of market value adjustments, was 13.6 per cent. This exceeds the target set for 2011 (12.8 per cent) due primarily to the inclusion of customer contributions as revenue, partially offset by the upward adjustment of the opening balance of retained earnings.

SaskEnergy's 2011 income before unrealized market value adjustments was $84 million, comprised of $41 million in operating income in 2011 (compared to a revised net income from operations target of $52 million) with customer contributions earned during the year ($43 million) representing the majority of the variance.

Community Investment

SaskEnergy believes that being a responsible and contributing member of the communities it serves is an essential part of its business strategy. Working closely with customers and the members of Saskatchewan communities helps ensure the longevity of successful business operations.

SaskEnergy did not meet its 2011 Community Investment target of supporting 1,300 projects, with a year-end total of 1,121. However, the total of 314 communities impacted throughout the year exceeded the goal of 270.

SaskEnergy has been able to maintain its presence in Saskatchewan communities over the last several years with an annual budget of $1.3 million for sponsorships and donations. The Corporation strategically prioritizes the types of sponsorships it provides. For 2011, cash donations were distributed to the following categories: Community Engagement (34 per cent), Learning & Development (31 per cent), Saskatchewan Pride (23 per cent), Environmental Stewardship (nine per cent), and Saskatchewan Growth (three per cent). Overall, 30 per cent of all cash donations were provided to Aboriginal-related initiatives and 63 per cent supported initiatives with a focus on youth.

Another important element of SaskEnergy's contribution to Saskatchewan involves supporting the strong and vibrant Aboriginal labour and business markets. This emerging market serves as an opportunity to create new, sustainable business and jobs for Aboriginal people today, and into the future. Thanks to a very strong fourth quarter result, SaskEnergy met its 2011 goal of 12 per cent Aboriginal labour content in contracts awarded.

Environmental

SaskEnergy places a strong emphasis on environmental sustainability. The Corporation partners with both the private and public sectors to help introduce and develop energy efficiency programs, opportunities and technologies that will play a role in the reduction of greenhouse gas (GHG) emissions. This measure is used to evaluate the Corporation's environmental impact.

SaskEnergy is committed to environmental leadership and assisting its customers in using natural gas energy responsibly through energy efficiency programs. SaskEnergy works closely with the Province and other strategic partners to assist homeowners with the responsible use of natural gas. While the goal was to assist 6,500 customers through these energy efficiency programs, the 2011 total was 9,212 customers.

SaskEnergy develops, delivers and funds several energy efficiency programs and rebates that directly benefit customers. These include: the $15 Programmable Thermostat Rebate, the ENERGY STAR® Loan Program, the Commercial Boiler Program, the Commercial HVAC Program, SaskEnergy Home Check-Up and Home Heating Tune-Up, the Energy Efficient Rebate for New Homes Gas Appliances rebate and the Home Energy Legacy Project. In 2011, the Corporation reached a total of 2,766 customers through these programs, down from the total of 4,305 customers reached in 2010. Feedback from the industry indicates that low natural gas prices

have discouraged some customers from upgrading their heating equipment, while other customers purchasing a new furnace were often completing other retrofits to their home and used cash or had low-interest financing already in place.

Programs that are delivered by SaskEnergy but funded by other organizations include the Saskatchewan EnerGuide for Houses Program (SEGH) and the Energy Efficient Rebate for New Homes. In 2011, SaskEnergy assisted 6,446 customers through these programs. Saskatchewan continues to lead the nation in participation rates for the SEGH program, with 14.6 per cent of the housing stock (51,519 homeowners) having an initial pre-retrofit evaluation completed since the program began in April 2007. The average for Canada is 8.5 per cent. 6,047 homeowners completed a Saskatchewan EnerGuide for Houses program pre-retrofit evaluation in 2011, a slight decrease from the 6,224 who did so in 2010.

SaskEnergy's efforts to educate and assist Saskatchewan residents in their energy efficiency activities received high scores in the company's annual customer satisfaction survey. Over 83 per cent (telephone) and 86 per cent (online) of the surveyed customers agreed that SaskEnergy is "committed to helping them use energy wisely." Over 40 per cent (telephone) and almost 50 per cent (online) of customers surveyed indicated that they have used at least one SaskEnergy-related energy efficiency program.

SaskEnergy and Crown Investments Corporation have agreed on annual energy efficiency goals, with SaskEnergy targeting to reduce annual fuel gas consumption in its compressors, line heaters, catalytic heaters and vehicles by 33 TJ per year (roughly equivalent to the energy used annually by 300 Saskatchewan homes). Incremental savings, attributed to two WHR projects scheduled to be put into service in 2011, were projected to contribute an equivalent saving of 32.5 TJ per year through reduced power purchases, bringing the 2011 target to 65.5 TJ.

In 2011, SaskEnergy did not meet its internal energy efficiency goal for 2011, saving a total of 38.7 TJ of energy. While outage scheduling issues delayed some projects expected to create reductions in 2011, corporate fuel use also increased, relative to 2010, due to the increased level of customer activity across Saskatchewan.

SaskEnergy has established an ongoing GHG reduction target of 5,000 tonnes of CO_2 equivalent (CO_2e) per year. While significant progress has been made toward achieving the Provincial government's reduction targets, the company's 2011 year-end result was 71 per cent, compared to the 78 per cent target. The level of growth experienced in the Province during 2011 was greater than anticipated and the additional compression required to meet the demands of this elevated activity affected the Corporation's ability to reach its 2011 reduction target. Not included in these results is an additional 1,800 tonnes associated with fugitive emissions reductions, which are not part of the regulatory emissions profile. Including this additional fugitive emission reduction would result in a further two per cent reduction.

SaskEnergy CO_2e reductions in recent years stem primarily from reduced demand for compression. In 2011, economic factors and increased customer demand for transportation services resulted in higher than projected compressor utilization. SaskEnergy and TransGas continue to strive to achieve 100 per cent of the provincial reduction target by 2020.

Our Future Outlook

The strong economic development in the Province will result in continued elevated industrial, commercial and residential customer growth for SaskEnergy and TransGas. To fulfill the Crown Sector Priority of supporting economic development in the Province and to maintain customer satisfaction, SaskEnergy must continue to develop strategies and initiatives designed to meet the challenges and cost pressures created by this growth. With this in mind, in 2012, the Corporation will build on established efficiency and productivity successes in such areas as Crown collaboration, technology- and process-based improvements to enhance execution across the company.

At the same time, the Corporation's strategies also need to address the effects of continued low natural gas commodity prices and the resulting decline in provincial natural gas production. SaskEnergy, as the commodity provider, must arrange and pay the additional costs of attracting extra-provincial gas supply. TransGas, meanwhile, must effectively meet demands for importing gas supply to end users in a reliable and cost-effective manner.

SaskEnergy and TransGas will continue to demonstrate environmental leadership in its operations, giving customers incentives to make their homes and businesses more energy efficient, while investing in solutions and programs to reduce its corporate environmental footprint.

OUR GROWTH

Strategic Measure	2010 Actual	2011 Actual	2011 Target	2012 Target	2013 Forecast	2014 Forecast
Business Development[1]						
• Rate of Return on Investment[2]	New for 2011	1.5%	11.0%	8.8%	10.0%	11.9%
• Direct Capital Investment (millions)	$11.0	$3.7	$13.1	$13.6	$19.5	$4.9
• Third-Party Capital Leveraged[3] (millions)	New for 2011	$42.1	$66.1	$45.6	$13.3	$3.4
Core Growth – Capital Investment in New Infrastructure (millions)[4]	$57.0	$71.5	$53.2	$129.2	$81.9	$46.0

[1] Business Development includes the total business development activity undertaken by all subsidiaries of SaskEnergy, including TransGas non-core activity, Bayhurst Gas Storage Inc (the joint venture), Kisbey Gas Processing Plant, and activity related to alternative energy solutions and CO_2 initiatives.
[2] The measure includes BESCO Business Development activity as well as waste heat recovery projects.
[3] The measure includes direct capital investment, third-party investment in Business Development and TransGas non-core projects, as well as incremental commodity activity.
[4] The measure includes the capital investment required to build facilities to bring gas from Alberta to meet Saskatchewan demand and for storage expansion, but excludes capital for asset renewal. This measure is calculated net of customer contributions.

Business Development

The Business Development scorecard category is comprised of three measures. The Rate of Return on Investment measure assumes that incremental revenues will be generated from new business development activities related to gas processing, storage, and Bayhurst field production. The Direct Capital Investment measure tracks the capital investment undertaken by SaskEnergy and its subsidiaries for Business Development. Finally, the Third Party Capital Leveraged measure tracks the capital invested by third parties in business development initiatives undertaken by SaskEnergy or its subsidiaries.

In 2011, SaskEnergy Business Development did not meet its direct capital investment target of $13.1 million, finishing the year at $3.7 million. The shortfall is attributable to delays and changing factors in a number of projects, including the Southeast Saskatchewan Straddle Plant, BG Storage Inc. (BGSI) Totnes Storage field development, Greenfield Flare Gas Plant and Coleville WHR, as well as the decision to delay Bayhurst field production, given the low natural gas price environment.

For many of these same reasons, SaskEnergy did not meet its Business Development Rate of Return on Investment target of 11.0 per cent in 2011 (finishing the year at 1.5 per cent) or its Third-Party Capital Leveraged target of $66.1 million (finishing the year at $42.1 million).

While the Business Development targets were not met in 2011, key accomplishments included the addition of three new Kisbey Gas Plant customer connections and the completion of a WHR project at the TransGas Rosetown compressor station, with a second project at Coleville targeted to be in service in 2012. Other activities of note included major progress on the BGSI Totnes storage field joint venture (the first new storage field in the Province in 30 years), progress on the proposed Southeast Saskatchewan Straddle Plant project, providing support to WHR projects at additional existing TransGas compressors, and projects to recover pressure energy at town border stations to generate electricity.

Capital Investment in New Infrastructure

The Capital Investment in New Infrastructure measure tracks the capital expenditures for SaskEnergy customer connections and TransGas capital expenditures related to storage and transmission system growth, net of customer capital contributions.

In 2011, SaskEnergy exceeded its capital investment in new infrastructure target of $53.2 million, with a total of $71.5 million expended on system expansions and customer growth. The increased capital requirement included carry-over of the South East Expansion pipeline project into 2011 from 2010 ($10 million), integrity-related projects to continue to ensure safe and reliable service to customers ($6.5 million), an enhanced oil recovery project ($6.2 million) and transmission expansion efforts to satisfy growing customer demand and bring additional gas from Alberta ($3 million).

Our Growth Outlook

According to the Conference Board of Canada, "Saskatchewan is set to enter a period of prolonged economic prosperity, anchored by large scale development of the potash industry and steady gains in the energy sector." Within this economic environment, SaskEnergy will leverage its corporate expertise and private sector partnerships to take full advantage of growth opportunities.

As well, the Corporation will seek to realize the potential to take commodity value generation to the next level by incorporating strategies that reflect different market price cycles. The risk/reward recognition of additional strategy development, leveraging TransGas physical storage/inventory capabilities, is fundamental to a more robust, sustainable commodity value direction.

SaskEnergy Business Development activities will continue to be evaluated relative to corporate risk/benefit, with private sector leverage and strategic corporate impact used as key considerations in overall plan development.

OUR SERVICE

Strategic Measure	2010 Actual	2011 Actual	2011 Target	2012 Target	2013 Forecast	2014 Forecast
Efficient Operations						
• Distribution						
◦ Operation, Maintenance and Administration Costs (per customer)	New for 2011	$279	$271	$289	$288	$288
◦ Competitive Residential Delivery Rates	Lowest in Canada	Lowest in Canada	Competitive with Industry	Competitive with Industry	Competitive with Industry	Competitive with Industry
• TransGas						
◦ Rate of Operation, Maintenance and Administration Costs	New for 2011	8.5%	8.4%	6.9%	6.5%	6.4%
◦ Competitive Transmission Rates (NOVA)	TGL: 31.0¢/GJ NOVA: 38.0¢/GJ	TGL: 31.0¢/GJ NOVA: 35.2¢/GJ	Competitive with Industry	Competitive with Industry	Competitive with Industry	Competitive with Industry
Customer Satisfaction						
• SaskEnergy	88%	91%	85%	85%	85%	85%
• TransGas	93%	93%	85%	85%	85%	85%
SaskEnergy Safe & Reliable Index	New for 2011	8.9	9.0	9.0	9.0	9.0
TransGas Safe & Reliable Index	New for 2011	9.2	9.5	9.5	9.5	9.5
Safety & Integrity[1]	New for 2012	2.5%	New for 2012	4.0%	4.0%	4.0%

[1] The measure is new for 2012, with the 2011 result shown for comparative purposes only. The measure reflects the current year's integrity capital spending as a percentage of the Corporation's assets as of 15 years prior. In general, older assets require greater attention from an integrity perspective, making it appropriate to measure integrity spending against these older assets.

Efficient Operations

The Operation, Maintenance and Administration (OMA) Costs measure is a proxy for the relative efficiency of the Distribution Utility's operations, while the Rate of OMA Costs measure serves the same purpose for the Transmission Utility's operations. The Competitive Rate measures reflect SaskEnergy and TransGas' commitment to the cost-effective delivery of natural gas services to all customers in Saskatchewan. Competitive rates permit SaskEnergy to support economic growth through an energy advantage of conducting business in the Province.

SaskEnergy's rates are approved by the Provincial Cabinet, which receives recommendations on proposed rate changes from the Saskatchewan Rate Review Panel (SRRP), an independent body which reviews all rate changes proposed by the Corporation. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers. TransGas transportation and storage rates are also subject to Provincial Cabinet approval.

Distribution

In 2011, SaskEnergy's Distribution Utility did not meet its target of $271 in OMA per distribution customer, with a measure of $279 per customer. Factors affecting the 2011 result are primarily related to elevated safety and integrity efforts.

SaskEnergy achieved its 2011 goal of having competitive residential delivery rates among the major utilities across Canada. Based on the previous 12 months, a typical residential customer in Saskatchewan paid $398 for delivery service, which is the lowest amount across Canada. Vancouver and Calgary were tied for the second-lowest delivery charges, which were $85 higher than those paid by Saskatchewan customers.

TransGas

In 2011, TransGas effectively met its operational efficiency target, finishing the year with an OMA rate of 8.5 per cent versus a target of 8.4 per cent. Keys in achieving the target included actively managing costs and continued effort toward innovation (such as mobile compression) in meeting service demand.

TransGas, which benchmarks its export rates against those of TransCanada Pipelines (TCPL) (NOVA) in Alberta, was successful this year in meeting its target of having rates lower than average TCPL (NOVA) export rates. At 31.0¢ per GJ, TransGas' 2011 rates were more than four cents lower per GJ than those of TCPL (NOVA) in Alberta (35.2¢ per GJ).

Customer Satisfaction

Customers are vital to a successful business, and the Corporation strives to ensure their expectations are not just met, but exceeded. The culture at SaskEnergy encourages employees to find solutions for customers and, therefore, plays a fundamental role in achieving high customer satisfaction ratings.

SaskEnergy

Each year, residential customers are surveyed to evaluate SaskEnergy's performance in providing reliable service and a high standard of customer service, along with other key areas such as environmental responsibility, commitment to help customers use energy responsibly, initiatives to meet their needs, and maintaining low rates.

In 2011, 91 per cent of residential customers surveyed rated their "overall satisfaction with SaskEnergy" as a 5, 6, or 7 on a 7-point scale. This exceeds the target of 85 per cent. In addition to the excellent overall satisfaction score, the 2011 SaskEnergy survey results show very high levels of customer satisfaction in virtually all areas.

TransGas

Each year, TransGas completes a customer satisfaction survey to measure its progress in several aspects of business: staff, applications, reliability and customer service excellence.

In the 2011 survey, conducted in November, TransGas received a composite score of 4.66 out of a possible 5.00 rating. This score represents a 93 per cent level of customer satisfaction, the same figure as in 2010, and well above the 85 per cent target.

SaskEnergy Safe & Reliable Index

The SaskEnergy Safe & Reliable Index measure is an average of the Response Time Index and the Reliability Index, both of which include a variety of industry-aligned service indicators and internal measures. In general, the Response Time Index measures the time required for technicians to respond to emergency calls, while the Reliability Index includes factors relating to customer outages, their cause and impact.

Overall for 2011, SaskEnergy achieved a Safe and Reliable Index rating of 8.9, only slightly below the target rating of 9.0. The rating is considered very favourable, given the significant customer growth and strong lead indicator results. There were a total of 76 incidents in 2011, resulting in 497 customer outages. Of the incidents, 56 were caused by third parties, 19 related to system issues, and one was attributed to internal operator error.

TransGas Safe & Reliable Index

The TransGas Safe & Reliable Index measure is an average of the Reliability Index and the Emergency Index, both of which include a variety of industry-aligned service indicators and internal measures. The Reliability Index includes factors relating to planned maintenance, reliability of critical compressor units, public awareness contacts completed and unplanned outages. The Emergency Index includes emergency equipment checks and maintenance, emergency exercises, and the number of line hits, spills and emergencies where the response was not in accordance with corporate procedure.

For 2011, the TransGas Safe & Reliable Index measure of 9.2 is slightly below the target of 9.5. Results on the majority of indicators were at or above the target, with the exceptions of Preventative Maintenance Work Order On-Time Completion and Emergency Shutdown Maintenance Checks Completed. As with the SaskEnergy Safe & Reliable measure, the 2011 rating is considered favourable, given the significant customer growth and strong lead indicator results.

Our Service Outlook

Natural gas-related incidents, both across the industry and within Saskatchewan, have created a need for additional strategic attention toward the Corporation's already robust safety and integrity systems. As such, timeliness of SaskEnergy responses in a proactive and transparent manner, accuracy of information, and engagement of key stakeholder groups are key factors in maintaining public confidence.

In response to the increased public scrutiny and the regulatory desire for additional risk mitigation within our corporate procedures and protocols, SaskEnergy has enhanced safety-related resourcing, integrity programming and operational compliance, while recognizing the critical need for risk/cost analysis and discussion within the broader industry.

In 2012, technology will be leveraged through a number of initiatives, including the Customer Information System Project, Advanced Metering Infrastructure Project and expanded deployment of mobile compression. Technology is an important component of the Corporation's service delivery focus and, through the leadership of frontline supervisors and individual employees, employees will be engaged in the technology changes and see the positive impacts these will bring not only to them, but to SaskEnergy and TransGas customers throughout the Province.

OUR PEOPLE

Strategic Measure	2010 Actual	2011 Actual	2011 Target	2012 Target	2013 Forecast	2014 Forecast
Employee Engagement						
• Employee Survey[1]	Second Quartile	-5%	At or above Hay Survey Norm	At or above Hay Survey Norm	At or above Hay Survey Norm	At or above Hay Survey Norm
Physical Safety[2]						
• Reportable Injury Rate	New for 2011	Fourth Quartile	Second Quartile	Second Quartile	Second Quartile	Second Quartile
• Preventable Vehicle Collision Frequency Rates	Second Quartile	Second Quartile	Top Quartile	Top Quartile	Top Quartile	Top Quartile
Workplace Diversity[3]						
• Youth	16.0%	16.7%	17.0%	17.0%	17.5%	18.0%
• First Nations/Métis	14.3%	14.1%	15.5%	15.5%	15.5%	16.0%
• Women in Technical Trades[4]	New for 2011	4.8%	8.0%			
• People with Disabilities[4]	3.8%	3.6%	4.0%			
• Visible Minorities[4]	3.5%	3.6%	4.5%			

[1] The Hay Group benchmarks survey results to their "public sector norm" as defined by the survey results of approximately 50 Canadian public sector organizations including Crowns.
[2] Quartile refers to ranking relative to other Canadian Gas Association and Canadian Energy Pipeline Association companies.
[3] The Saskatchewan Human Rights Commission (SHRC) goals for the respective groups, based on 2009 Saskatchewan workforce data are: Aboriginal – 14.8%; Women – 47%; People with Disabilities – 9.7%; Visible Minorities – 3.1%. The SHRC does not categorize Youth as a target group for workforce diversity.
[4] The measure has been discontinued for the 2012 Business Plan, as it is already tracked and reported annually to the SHRC.

Employee Engagement

SaskEnergy recognizes the importance of engaged employees to a successful organization. The Corporation participates in the Hay Group Survey every two years, with an interim pulse-check survey in the alternating year, to benchmark employee opinions against other North American companies. The survey provides an avenue to gather anonymous employee feedback to help SaskEnergy continue to strengthen the company.

In 2011, SaskEnergy conducted a full employee survey, with 72 per cent of employees responding. While the overall results placed the company five percentage points below the overall Hay Norm of public sector companies, reflecting the volume of change employees are experiencing, a vast majority of employees continue to take great pride in working for SaskEnergy (81 per cent), which is an extremely positive indicator.

SaskEnergy continues to place an increased focus on employee engagement through the Leadership Network, comprised of all senior leaders and supervisors. Through group discussions and learning opportunities, the Leadership Network is continuing to build critical skills in leading and engaging people across the company.

Physical Safety

Every day, SaskEnergy's top priority is to send each and every employee home safely. This strong commitment is reinforced through the Corporation's dedication to attaining high standards in its safety performance measures. SaskEnergy strives to place in the second quartile in its Preventable Vehicle Collision Rate (PVCR) and in the first quartile in its Total Recordable Injury Rate (TRIR), compared to its industry peers.

For 2011, the company's safety results were very favourable, with a PVCR of 1.83, the best result in the last 15 years. Meanwhile, the SaskEnergy TRIR for 2011 was 3.24, second-best result in this category in the last 15 years (behind only the 2010 figure).

While the company did not meet its 2011 safety goals, finishing in the second quartile in PVCR and in the fourth quartile in TRIR, progress has been made and results were encouraging. Hazard Near Miss (HNM) reporting is a leading safety indicator for SaskEnergy, with more HNM reports meaning greater safety awareness. In 2011, employees submitted 1,377 HNM reports, up from 1,211 in 2010. Overall, 77 per cent of SaskEnergy employees completed at least one HNM report in 2011.

2011 also marked the ninth consecutive year that SaskEnergy/TransGas conducted a Safety Stand Down Week. This safety initiative is a designated time for Executive members, including the President and CEO, to visit various locations throughout the Corporation and talk about safety issues with all employees. This year's theme was "Safety from Start to Finish", and 33 sessions, facilitated by Executive members, were held at various locations in April.

Workplace Diversity

To help achieve representative workforce targets, SaskEnergy works together with many community-based organizations, including three Saskatchewan Tribal Councils, the Regina Open Door Society, Saskatchewan Independent Living Centre and the Saskatchewan Visible Minority Employees Association. SaskEnergy's partnership with the Saskatchewan Indian Institute of Technologies and the Dumont Technical Institute in the Aboriginal Trades Development Program remains a key initiative in the Corporation's diversity strategy.

At 14.1 per cent, SaskEnergy's workforce representation of Aboriginal employees remained strong in 2011, while representation from the Visible Minority and People with Disabilities groups remained similar to the 2010 figures, with both at 3.6 per cent. SaskEnergy's generational workforce transition is reflected by the continued increase in the Youth category, which was at 16.7 per cent at year-end, an increase of 0.7 per cent from 2010.

Our People Outlook

SaskEnergy's corporate productivity initiatives, implemented over the last three years, are achieving results. Moving forward, the resourcing strategy will continue to highlight technology integration, process improvement, Crown collaboration, utilization of external expertise and employee leadership. The company will seek to capitalize on opportunities created by regional trade agreements, including the New West Partnership. Throughout these processes, management acknowledges the need to consider the impact of continued growth activity and elevated public safety demands on productivity and resource targets for 2012.

Employee retirements are expected to have a significant impact on overall demographics between 2012 and 2016. Throughout this time, the company will maintain its corporate youth and diversity recruitment focus, while making any necessary adjustments to training structure and employee roles.

Changing demographics require creative solutions to allow SaskEnergy to capitalize on this change. The Corporation is focused on eliminating low-value tasks and transitioning to focus people on the specialized technical demands of its business and the effective leadership of projects and people. Experienced employees will help to train and develop younger staff through mentorship opportunities and knowledge transfer. As a key corporate value, safety-related initiatives will remain a focus for all SaskEnergy employees and workplaces across the Province.

The leadership of the company is critical to engaging employees through a changing work environment. SaskEnergy's Leadership Network bridges individual managers and supervisors to their people leadership role by providing them with the tools and support they need to effectively engage their employees. Effective people management also requires a focus on recognition and accountability of employees' performance, which will continue to be a key objective for the company throughout 2012.

STAKEHOLDER ENGAGEMENT

Strong two-way communications models support the achievement of business and corporate results at SaskEnergy. The Corporation is committed to rigorous and professional communications practices that support the principles of timeliness, openness and transparency with its stakeholder.

Details on SaskEnergy's stakeholder engagement practices, as they pertain to Customer and Public Communications, Shareholder Communications, Project-based Communications, Regulatory Communications, and Employee Communications, respectively, are available on the SaskEnergy website: http://www.saskenergy.com/about_saskenergy/annual_report/documents/2011/Stakeholder_Engagement.pdf.

RISK MANAGEMENT

The transmission, storage, distribution and sale of natural gas are subject to a number of risks that can affect SaskEnergy's success in achieving its business objectives. SaskEnergy's approach to risk management is to take only those risks for which it has appropriate resources, expertise and financial capacity to manage. The major risks, their potential impact on business and SaskEnergy's risk management strategies are discussed below.

Natural Gas Price Risk

SaskEnergy's exposure to natural gas price risk occurs primarily because the Corporation purchases natural gas at variable market prices and resells it to utility customers at fixed rates. A $1.00 per GJ change in the market price of natural gas affects the annual purchase cost of natural gas by approximately $55 million. The risk of natural gas costs rising above the rate at which the natural gas is sold to utility customers is mitigated through SaskEnergy's natural gas price risk management strategy. Also, SaskEnergy accumulates differences between the cost of gas sold and its rate in a GCVA, which may be recovered from or refunded to customers in subsequent periods.

SaskEnergy also buys and sells natural gas as part of its gas marketing activities and may be exposed to price movement. Natural gas price risk is subject to the commodity risk management policy, which establishes a control framework to manage these risks.

Winter Weather

In Saskatchewan, variability in winter weather temperature has a direct impact on the volume of natural gas consumed by distribution customers. Every 10 per cent change in heating degree days affects SaskEnergy's distribution revenue by approximately $7 million. SaskEnergy earns a portion of its revenue through a fixed basic monthly charge that ensures revenue generation from customers regardless of the level of natural gas consumption.

Operational Risk

Operational hazards include severe weather conditions, fire, human error, mechanical failures, third-party pipeline encroachment, hazardous materials and acts of civil disobedience, sabotage and riots. Operational hazards could disrupt the effective operation of SaskEnergy's natural gas storage, distribution or transmission infrastructure, resulting in potential service interruption or financial loss. Operational risks threaten service reliability as well as employee and public safety. SaskEnergy mitigates its operational risks through system integrity programs, public awareness programs, employee and operator training, operating manuals and procedures and safety programs. The financial impacts of risks are also mitigated, where possible, through insurance. Additionally, the pipeline system is designed to meet customer demand in an extremely cold winter. When the system is not operating at capacity, the winter design capacity enables the system to meet customers' demand even in the event of disruption.

Regulatory Risk

The rates the Corporation may charge its customers are determined by a regulatory process. The recommendations of the regulatory body, SRRP, and the decisions by Provincial Cabinet have a direct effect on the financial results of the Corporation. The impact of a one per cent differential between a delivery rate increase request and an approved delivery rate is approximately $2 million. SaskEnergy follows standard regulatory principles in designing rates and operating its system and presents these practices to the regulator in its rate applications.

Execution Risk

A shortage of manpower or expertise adversely affects SaskEnergy's ability to properly assess or implement an effective business development strategy. This could result in growth opportunities that are less profitable than the current enterprise, reducing overall profit. SaskEnergy has implemented a Strategic Plan to ensure that adequate resources are acquired and applied in areas of highest priority.

Special Interests

SaskEnergy is exposed to the risk of higher costs, delays or even project cancellations due to pressure by landowners and other special interest groups. Recent Supreme Court decisions have increased the ability of special interest groups to make claims and oppose projects in regulatory and legal forums. This could delay and increase costs in the construction projects. SaskEnergy works proactively with landowners and other interest groups to identify and develop appropriate responses to concerns regarding its project program.

Interest Rate Risk

The interest paid on debt used to finance assets is a significant component of SaskEnergy's cost structure. For every $10 million of debt issued in a year, a 0.25 per cent change in the interest rate will affect annual interest expense by approximately $25 thousand. SaskEnergy manages interest rate risk by financing long-term capital requirements with long-term fixed rate debt, thereby minimizing the impact of changing interest rates on financial results. Furthermore, SaskEnergy manages the maturity dates on its debt to minimize the impact of interest rate risk and cash flow liquidity shortfalls in any single year. SaskEnergy may also use financial instruments to hedge short-term debt from changes in interest rates.

Declining System Throughput

Over the past few years, Saskatchewan natural gas production has experienced declines resulting in lower volumes of natural gas being exported from the Province and thus lower volumes of throughput on the transmission system. Saskatchewan is now a net importer of natural gas due to declining provincial production and increasing demand from a growing economy. As a net importer of natural gas, total system throughput will likely experience modest growth consistent with a growing provincial economy, thus reducing the risk of declining system throughput to that of periods of provincial economic contraction.

On the distribution system, conservation initiatives by customers have reduced the average volume of natural gas used per customer. As usage per customer declines, fixed costs of the distribution system are recovered over lower sales volumes. SaskEnergy incorporates an assumption for declining usage per customer in its revenue forecasts and rate-setting process.

Credit Risk

Credit risk relates to the failure of a counterparty to fulfill contractual obligations due to financial distress such as bankruptcy and insolvency. SaskEnergy mitigates credit risk by constantly reviewing the creditworthiness of large customers and counterparties, limiting the maximum amount of credit extended to any party and continually monitoring its customer and counterparty credit. Additionally, credit checks and reviews are performed before any transactions are completed, and parties judged to have inadequate credit are required to post security. The amount of credit extended to individual counterparties is limited so that the annual expected loss should average less than $3 million and should never exceed $30 million in a single year.

Environmental Risk

The gathering, compression, storage, transmission and distribution of natural gas involve the use of certain chemicals and materials that are considered hazardous to the environment and require special handling procedures. Federal GHG conventions present risk to SaskEnergy because methane, the largest component of natural gas, is considered a GHG. The environmental risks presented by natural gas and certain chemicals and materials are mitigated by proper handling and containment procedures, product substitution and employee and operator training. SaskEnergy is working

to reduce its GHG emissions to limit its impact on the environment and to manage the financial risks associated with this potential environmental issue.

Provincial Economy

SaskEnergy has the franchise rights to provide distribution service to customers within Saskatchewan and an implied obligation to meet customer demand where economically feasible. SaskEnergy currently serves more than 92 per cent of all communities in Saskatchewan. Opportunities to expand service within the existing service area depend upon economic growth. Recently, economic growth has put pressure on SaskEnergy's capacity to meet demand for new service. SaskEnergy has cost containment strategies to ensure that rising construction and maintenance costs do not significantly exceed the growth of the system. Service is only expanded where anticipated incremental revenue is sufficient to recover incremental costs of service. This ensures that existing customers are not adversely affected by the addition of new customers.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Effective January 1, 2011 the Corporation adopted IFRS and has prepared its consolidated financial statements in accordance with these standards. Previously, the Corporation reported under Canadian GAAP and a detailed discussion of the transition to IFRS is included in Note 31 of the consolidated financial statements. In the application of the Corporation's accounting policies, which are described in the notes to the consolidated financial statements, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected. The Corporation's critical accounting policies and estimates have been summarized below.

Net Realizable Value of Natural Gas in Storage

The Corporation's natural gas in storage is valued at the lower of cost and net realizable value. In order to determine the net realizable value, the Corporation uses quoted future market prices based on anticipated delivery dates. When determining delivery dates, the Corporation considers future natural gas contracts, management's intention and the Corporation's ability to withdraw natural gas from storage. At year end, the revaluation of natural gas in storage was $45 million, an increase of $24 million from the prior year. A $0.25 per GJ change in the net realizable value would have increased/decreased the revaluation of natural gas in storage by $13 million.

Fair Value of Derivative Instruments

The Corporation uses various natural gas derivative instruments to manage the risk of natural gas price fluctuations. Prior to settlement, SaskEnergy records all natural gas derivative instruments at fair value. At year end, the Corporation had outstanding physical contracts and swaps with the fair values determined using quoted market prices. Given fluctuations in natural gas prices, fair value adjustments vary throughout the length of the contract. In valuing each derivative instrument, assumptions are also made regarding the credit quality of counterparties.

At year end, a $1.00 per GJ change in natural gas prices would have increased/ decreased the fair value adjustment by $41 million.

Amortization

Intangible assets and property, plant and equipment constitute a significant component of the Corporation's assets. As a result, changes in assumptions related to the calculation of amortization expense may have a significant impact on SaskEnergy's net income. The Corporation's intangible assets and property, plant and equipment are amortized on a straight-line basis over the estimated service life of the asset. The estimated service lives are based on depreciation studies with annual reviews for reasonableness. Any resulting changes in the estimated service life of an asset are treated as prospective adjustments to amortization.

Employee Future Benefits

For the Corporation's pension plans, its obligation is limited to making contributions for employees' current service. However, the Corporation also has an unfunded defined benefit retiring allowance plan, of which, the accrued benefit liability must be actuarially determined using the projected benefit method on an annual basis. In doing so, a number of actuarial assumptions are adopted, including wage and salary escalation, age at retirement and discount rates. Market rates are used to measure the accrued benefit obligation. Through an independent actuary, the accrued benefit obligation at December 31, 2011 was $13 million, a decrease of $1 million from the prior year.

Provisions

The Corporation determines its obligation, legal or constructive, for the future costs of decommissioning certain natural gas facilities by estimating both the associated costs and timing of the necessary cash flows. The timing of the future decommissioning is conditional upon the Corporation's intended use for these facilities. The future costs are estimated based on the Corporation's experience and presented on a discounted basis. At year end, the Corporation's provisions totaled $17 million.

Unbilled Revenue

Commodity sales and delivery revenues are recognized when natural gas is delivered to customers. SaskEnergy recognizes an estimate of the volume of natural gas delivered but not billed, as it is impracticable to read all customer meters on December 31 of each year. The volume of unbilled sales is determined by comparing the estimated total volume of natural gas that entered the distribution system to the volume of natural gas billed to customers. Regular meter readings throughout the year are used to reconcile volumes purchased with volumes billed. At December 31, 2011 the unbilled revenue related to commodity sales and delivery revenue was $32 million.

FUTURE ACCOUNTING CHANGES

Several new standards, which have effective dates beginning on or after January 1, 2013, have been issued by the International Accounting Standards Board (IASB). The Corporation continues to review these new standards, along with amendments to previously enacted standards, in advance of their effective date. At present time, the Corporation has not identified any material impacts expected to its financial statements as a result of adopting these new standards when they become effective.

The new and amended standards include:

IFRS 9 *Financial Instruments* reduces measurement classification of financial assets to one of two categories: amortized cost or fair value. The classification is based on an entity's business model for managing the asset, and the contractual cash flow characteristics of the asset. This standard is effective for annual periods beginning on or after January 1, 2015. SaskEnergy is continuing to review this standard and has not yet determined its impact on the financial statements.

IFRS 10 *Consolidated Financial Statements* requires consolidation of all investees controlled by an entity. The standard defines control as existing when an entity has power over the investee, is exposed to variable returns from the investee, and has the ability to exercise its power to affect the returns. The Corporation wholly owns all of its subsidiaries and, therefore, control is not in question. SaskEnergy continues to review this standard but it does not anticipate any material impact from adoption of this standard.

IFRS 11 *Joint Arrangements* identifies two distinct types of joint arrangements: joint operations and joint ventures. A joint operation is identified where a share of the individual assets and responsibility for a share of the individual liabilities is attributable to each operator. A joint venture exists when the joint arrangement itself directly owns the assets and is fully responsible for the liabilities of the venture. In this instance, each partner in the joint venture accounts for its investment using the equity method and separately reports its investment in the venture, as well as its share of the net earnings.

Currently, the Corporation's interests in joint ventures are in the form of jointly controlled assets and the Corporation's share of the jointly controlled assets, liabilities, revenue and expenses are included in its financial statements. SaskEnergy continues to review this standard but it does not anticipate any material impact from adoption of this standard.

IFRS 12 *Disclosure of Interests in Other Entities* provides disclosure requirements for reporting of entities under the consolidation and joint arrangements standards. The required disclosures focus on providing an evaluation of the nature, risks, and financial impacts of an entity's interests in subsidiaries, associates, and joint arrangements. SaskEnergy continues to review this standard and it anticipates an increase in disclosures in these areas but does not expect a material impact.

IFRS 13 *Fair Value Measurement* consolidates guidance on fair value measurement and enhances the required disclosures. It provides additional guidance on measuring the fair value of non-financial assets which have no active market, but it does not carry any additional disclosure requirements. SaskEnergy continues to review this standard and it anticipates an increase in disclosures in these areas but does not expect a material impact.

IAS 19 *Employee Benefits* has been amended to discontinue the ability to defer recognition of actuarial gains and losses and requires immediate recognition of such gains and losses in other comprehensive income. The amendment also includes requirements for additional disclosures. SaskEnergy's current policy includes immediate recognition of its actuarial gains and losses and, therefore, the new standard is not expected to have a material impact on SaskEnergy upon adoption.

IAS 27 *Separate Financial Statements* has been amended to remove the requirements relating to consolidated financial statements due to the issuance of IFRS 10. Requirements from IAS 28 and IAS 31 were transferred to this section to create a single standard to deal with separate financial statements. SaskEnergy continues to review this standard but does not anticipate any material impact from adoption of this standard.

IAS 28 *Investments in Associates and Joint Ventures* has been amended to incorporate the accounting for joint ventures because the equity method is now applicable to both joint ventures and associates. SaskEnergy continues to review this standard but does not anticipate any material impact from adoption of this standard.

Controls and Procedures

The Corporation continued its process of CEO/CFO Certification of Financial Statements, which it began in 2009. This process was designed under the supervision and with the participation of executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting. This process requires an ongoing assessment of the effectiveness of the Corporation's internal controls over financial reporting, including the monitoring and reporting of remediation efforts. Based on the results of this assessment, management has provided reasonable assurance in Management's Responsibility for Financial Statements that the Corporation maintained effective internal control over financial reporting as at December 31, 2011.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Financial Reporting

The accompanying consolidated financial statements are the responsibility of the management of SaskEnergy. They have been prepared in accordance with IFRS, using management's best estimates and judgments where appropriate. Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the financial statements and all other financial information contained in this annual report.

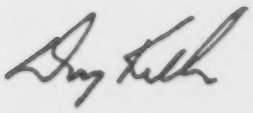
The Corporation's Board of Directors (the Board) is responsible for ensuring that management fulfills its responsibilities for financial reporting and control. The Board is assisted in exercising its responsibility through its Audit and Finance Committee (the Committee). The Committee is composed of directors who are not employees of the Corporation. The Committee reviews the annual report and meets regularly with management, internal audit and external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements.

Internal Control over Financial Reporting

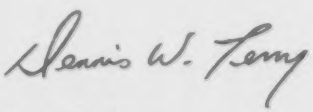
Management is also responsible for establishing and maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial statements. The internal control system includes an internal audit function and an established code of conduct.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as at December 31, 2011, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the company maintained effective control over financial reporting and that there were no material weaknesses in internal controls over financial reporting as at December 31, 2011.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by CIC. The Auditor's Report expresses their opinions on the fairness of the financial statements prepared by management.



Doug Kelln
President and Chief Executive Officer



Dennis Terry
Vice-President, Finance and Chief Financial Officer

February 29, 2012

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying consolidated financial statements of SaskEnergy Incorporated and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SaskEnergy Incorporated and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years then ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants

February 29, 2012
Regina, Saskatchewan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at

(millions)	Notes	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash		$ 21	$ 1	$ –
Trade and other receivables	6	103	113	128
Natural gas in storage held for resale	7	214	247	258
Inventory of supplies	8	10	8	9
Debt retirement funds	9	6	–	9
Fair value of derivative instruments	11	78	79	52
		432	448	456
Intangible assets	12	30	21	15
Property, plant and equipment	13	1,395	1,301	1,230
Debt retirement funds	9	67	59	48
Investments in associates	10	–	29	30
		$ 1,924	$ 1,858	$ 1,779
Liabilities and Province's equity				
Current liabilities				
Bank indebtedness		$ –	$ –	$ 1
Short-term debt	14	314	239	108
Trade and other payables	15	101	101	113
Dividends payable		9	22	21
Current portion of long-term debt	16	50	–	80
Deferred revenue	17	32	49	34
Fair value of derivative instruments	11	98	63	38
		604	474	395
Employee benefits	18	13	14	14
Provisions	19	17	17	16
Deferred revenue	17	9	9	10
Long-term debt	16	665	715	715
		1,308	1,229	1,150
Province's equity				
Equity advances	20	72	72	72
Retained earnings		544	557	556
Other components of equity		–	–	1
		616	629	629
		$ 1,924	$ 1,858	$ 1,779

(See accompanying notes)

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31

		2011			2010		
(millions)	Notes	Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 22)	Total	Income before Unrealized Market Value Adjustments	Unrealized Market Value Adjustments (Note 22)	Total
Revenue							
Natural gas sales	23	$ 569	$ 2	$ 571	$ 632	$ 30	$ 662
Delivery		187	–	187	185	–	185
Transportation and storage		77	–	77	77	–	77
Customer capital contributions	17	43	–	43	20	–	20
Other	24	12	–	12	9	–	9
		888	2	890	923	30	953
Expenses							
Natural gas purchases (net of change in inventory)	23	518	62	580	584	49	633
Employee benefits		82	–	82	84	–	84
Operating and maintenance		83	–	83	72	–	72
Depreciation and amortization	26	68	–	68	67	–	67
Saskatchewan taxes	27	10	–	10	9	–	9
		761	62	823	816	49	865
Net income before the following		127	(60)	67	107	(19)	88
Finance income	28	5	2	7	4	1	5
Finance expenses	28	(40)	–	(40)	(43)	–	(43)
Net finance expenses	28	(35)	2	(33)	(39)	1	(38)
Loss on sale of investments in associates	10	(8)	–	(8)	–	–	–
Net income		84	(58)	26	68	(18)	50
Foreign currency translation adjustments		–	–	–	(1)	–	(1)
Total comprehensive income		$ 84	$ (58)	$ 26	$ 67	$ (18)	$ 49

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31

(millions)	Notes	Retained Earnings	Equity Advances	Other Components of Equity	Total
Balance as at January 1, 2010	31	$ 556	$ 72	$ 1	$ 629
Total comprehensive income		50	–	(1)	49
Dividends		(49)	–	–	(49)
Balance as at December 31, 2010		$ 557	$ 72	$ –	$ 629
Balance as at January 1, 2011		$ 557	$ 72	$ –	$ 629
Total comprehensive income		26	–	–	26
Dividends		(39)	–	–	(39)
Balance as at December 31, 2011		$ 544	$ 72	$ –	$ 616

(See accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31

(millions)	Notes	2011	2010
Operating activities			
Net income		$ 26	$ 50
Add (deduct) items not requiring an outlay of cash			
Loss on sale of investments in associates	10	8	–
Net change in fair value of derivative instrument assets and liabilities	11	36	(2)
Change in revaluation of natural gas in storage to net realizable value	22	24	21
Depreciation and amortization	26	68	67
Net finance expenses	28	33	38
Other non-cash items		–	1
		195	175
Net change in non-cash working capital related to operations	29	–	10
Cash provided by operating activities		195	185
Investing activities			
Net proceeds on sale of investments in associates	10	22	–
Additions to intangible assets	12	(13)	(11)
Additions to property, plant and equipment	13	(159)	(133)
Cash used in investing activities		(150)	(144)
Financing activities			
Increase in short-term debt		75	131
Debt retirement funds redemptions	9	–	10
Repayments of long-term debt		–	(80)
Debt retirement funds installments	9	(7)	(7)
Interest paid		(41)	(45)
Dividends paid		(52)	(48)
Cash used in financing activities		(25)	(39)
Increase in cash and cash equivalents		20	2
Cash and cash equivalents, beginning of year		1	(1)
Cash and cash equivalents, end of year		$ 21	$ 1

(See accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*. The address of SaskEnergy's registered office and principal place of business is 1777 Victoria Avenue, Regina, Saskatchewan, Canada S4P 4K5. The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC. As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). As these consolidated financial statements represent the Corporation's initial presentation of its income, financial position and cash flows under IFRS, they were prepared in accordance with IFRS 1 *First-time Adoption of IFRS*.

The Corporation's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), which differs in some areas from IFRS. In preparing the consolidated financial statements, management has amended certain accounting policies previously applied under Canadian GAAP to comply with IFRS. The comparative figures for 2010 have been restated to reflect these adjustments. Certain information that is considered material to the understanding of the Corporation's consolidated financial statements, along with reconciliations and descriptions of the impact of the transition from Canadian GAAP to IFRS on the Corporation's financial position, financial performance and cash flows, are included in Note 31.

The consolidated financial statements were authorized for issue by the Board of Directors on February 29, 2012.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except where otherwise noted.

c. Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency, unless otherwise stated. All financial information presented in Canadian dollars has been rounded to the nearest million.

d. Use of estimates and judgments

In the application of the Corporation's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised as well as any future periods affected.

Information about critical judgments in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements is included in Note 3 as well as the following notes:

Revenue recognition related to unbilled revenue (Note 6)
Existence of decommissioning liabilities (Note 19)

2. Basis of preparation (continued)

Information about significant management estimates and assumptions that have a significant risk of resulting in a material adjustment within the next financial period is included in Note 3 as well as the following notes:

Estimated unbilled revenue (Note 6)
Net realizable value of natural gas in storage held for resale (Note 7)
Fair value less costs to sell of assets held for sale (Note 10)
Fair value of financial and derivative instruments (Note 11)
Useful lives and amortization rates for intangible assets (Note 12)
Useful lives and depreciation rates for property, plant and equipment (Note 13)
Estimated refunds of customer capital contributions (Note 17)
Employee future benefits and underlying actuarial assumptions (Note 18)
Estimated future cost of decommissioning liabilities (Note 19)

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position as at January 1, 2010 for the purpose of the transition to IFRS, unless otherwise indicated.

a. Basis of consolidation

Subsidiaries are entities controlled by SaskEnergy. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. All intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

The Corporation's consolidated financial statements include the accounts of SaskEnergy and its direct and indirect wholly owned subsidiaries: Bayhurst Gas Limited, Bayhurst Energy Services Corporation, BG Storage Inc., Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., Swan Valley Gas Corporation and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership.

b. Investments in associates

Associates are those entities in which the Corporation has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include the Corporation's share of the net income and equity movements of associates, after adjustments to align the accounting policies with those of the Corporation, from the date significant influence commences until the investments became held for sale on January 1, 2011. As at January 1, 2011, the Corporation ceased applying the equity method and began measuring its investments in associates at the lower of carrying amount and fair value less costs to sell.

c. Interest in joint ventures

The Corporation's interests in joint ventures are in the form of jointly controlled assets, which involves the joint control of one or more assets acquired for and dedicated to the purpose of a joint venture. The consolidated financial statements include the Corporation's share of the jointly controlled assets, incurred liabilities, revenue and expenses as well as any liabilities and expenses that the Corporation has incurred directly in respect of its 50 per cent interests in the Kisbey Gas Gathering and Processing Facility and the Totnes Natural Gas Storage Facility.

d. Cash and cash equivalents

Bank indebtedness forms a part of the Corporation's cash management and is included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

e. Natural gas in storage

Natural gas in storage is stated at the lower of weighted average cost and net realizable value. Net realizable value is determined using natural gas market prices based on anticipated delivery dates.

3. Summary of significant accounting policies (continued)

f. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are stated at the lower of weighted average cost and net realizable value. Replacement value is used as management's best estimate of net realizable value.

g. Debt retirement funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, the Corporation is required, on an annual basis, to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as debt retirement funds and are administered by Saskatchewan's Ministry of Finance. Debt retirement funds are designated as at fair value through profit or loss and are recorded at fair value on the consolidated statement of financial position. The investment is returned to the Corporation upon maturity of the related debt.

h. Assets held for sale

Assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell, with any resulting impairment loss recognized in operating and maintenance expense.

i. Financial and derivative instruments

The Corporation classifies its financial instruments into one of the following categories: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale and other liabilities.

All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments, except for financial assets and financial liabilities at fair value through profit or loss, in which case the transaction costs are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

i. Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities are classified as at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. A financial asset or financial liability is classified as held for trading if it has been acquired with the intention of generating profits in the near term or is part of a portfolio of financial instruments that are managed together where there is evidence of a recent pattern of short-term profit taking. A financial asset or financial liability is designated as at fair value through profit or loss if the Corporation manages such instruments and makes decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value with any revaluation gains and losses recognized in finance income or finance expense respectively.

ii. Held-to-maturity financial assets

Financial assets classified as held-to-maturity have fixed or determinable payments and a fixed maturity, and the Corporation has the positive intention and ability to hold these financial assets to maturity. These financial assets are accounted for at amortized cost using the effective interest method. Amortized premiums or discounts and losses due to impairment are included in finance expense.

iii. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are accounted for at amortized cost using the effective interest method.

iv. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified in any of the previous categories. In cases where financial assets are classified as available-for-sale and carried at fair value, revaluation gains and losses related to changes in fair value are recorded in other comprehensive income until the asset is disposed of, at which time those gains and losses are recognized separately on the consolidated statement of comprehensive income.

3. Summary of significant accounting policies (continued)

v. **Other liabilities**

Other liabilities are non-derivative financial liabilities that are not designated as at fair value through profit or loss. These financial liabilities are accounted for at amortized cost using the effective interest method.

vi. **Derivative instruments**

The Corporation utilizes a variety of derivative instruments to manage its exposure to natural gas price risk. Derivative instruments are recorded at fair value within current assets or current liabilities, as applicable, commencing on the trade date. The change in the fair value is recorded in net income and classified within the revenue or expense category to which it relates.

Derivatives may be embedded in other host instruments. Embedded derivatives are treated as separate derivatives when the economic characteristics and risks are not closely related to those of the host instrument, the embedded derivative has the same terms as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with subsequent changes recognized in net income and classified within the revenue or expense category to which it relates. The Corporation utilizes natural gas sales contracts with embedded derivatives for non-regulated contract sales to large end-use customers.

vii. **Fair value of financial and derivative instruments**

In measuring fair value, the Corporation classifies its financial and derivative instruments according to the following fair value hierarchy based on the amount of observable inputs:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as at the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices included within Level 1. Prices in Level 2 are either directly or indirectly observable as at the reported date. Level 2 valuations are based on inputs, including quoted forward market prices, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs that are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value.

For derivative instruments, the fair value is discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the instrument. The fair values also include adjustments to account for the credit risk of the Corporation and counterparty when appropriate.

j. **Intangible assets**

Intangible assets are recorded at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are capitalized if it is probable that the asset acquired or developed will generate future economic benefits. The costs incurred to establish technological feasibility or to maintain existing levels of performance are recognized in operating and maintenance expense as incurred.

Cost includes expenditures that are directly attributable to the acquisition or development of the asset. The cost of self-developed assets includes materials, services, direct labour and directly attributable overheads. Borrowing costs associated with major projects are capitalized during the development period. Major projects (or qualifying assets) are those projects that are under development for a period greater than six months. Assets under development are recorded as in progress until they are available for use.

Amortization is based on the cost of the asset less its residual value and is calculated using the straight-line method over the estimated useful life of the asset from the date the asset is available for use. The amortization rates range from 10.0 to 20.0 per cent annually. The estimated useful lives, residual values and method of amortization are reviewed annually for reasonableness.

3. Summary of significant accounting policies (continued)

k. Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and any accumulated impairment losses. The cost of certain items of property, plant and equipment was deemed to be its fair value as at the date of transition to IFRS (Note 31).

Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost of self-constructed assets includes materials, services, direct labour and directly attributable overheads. Borrowing costs associated with major projects are capitalized during the construction period. Major projects (or qualifying assets) are those projects that are under construction for a period greater than six months. Assets under construction are recorded as in progress until they are available for use.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. The cost of major inspections or overhauls is capitalized. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the specific item if it is probable that the part will generate future economic benefits, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The cost of the day-to-day servicing of property, plant and equipment is recognized in operating and maintenance expense as incurred.

When property, plant and equipment is disposed of or retired, the related cost, accumulated depreciation and any accumulated impairment losses are eliminated. Any resulting gains or losses are reflected in operating and maintenance expense in the period the asset is disposed of or retired.

Depreciation is based on the cost of the asset less its residual value and is calculated using the straight-line method over the estimated useful life of the asset from the date the asset is available for use at the following annual rates (per cent):

Distribution	2.1 to 4.0
Transmission and storage	2.5 to 9.0
Gathering, treatment and compression	2.5 to 12.2
Vehicles, equipment and other	2.5 to 16.4
Computer hardware	20.0 to 33.3

The estimated useful lives, residual values and method of depreciation are based on depreciation studies with annual reviews for reasonableness.

l. Impairment

i. Financial assets

Financial assets, other than those classified as at fair value through profit or loss, are reviewed at each reporting date to determine whether there is any indication of impairment. Financial assets are impaired when there is objective evidence that the estimated future cash flows have been affected. Objective evidence of impairment could include significant financial difficulty, default or delinquency or indication of bankruptcy or financial reorganization of a counterparty.

The Corporation considers evidence of impairment for trade and other receivables on both an individual and a collective basis. In assessing collective impairment, the Corporation uses historical trends of the likelihood of default, timing of recoveries and the amount of losses incurred, adjusted for management's judgment as to the impact of current economic and credit conditions.

The carrying amount of trade and other receivables is reduced through the use of an allowance account. Once reasonable collection efforts have been exhausted, and a trade and other receivable balance is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized immediately in operating and maintenance expense.

3. Summary of significant accounting policies (continued)

ii. **Non-financial assets**

At each reporting date, the Corporation reviews the carrying amount of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. The carrying amount of an investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired. Assets that cannot be tested individually, including corporate assets, are grouped together into cash-generating units (CGUs), the smallest group of assets that generates cash inflow from continuing use.

The recoverable amount of an asset or CGU is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount, and an impairment loss is recognized immediately in operating and maintenance expense.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the carrying amount of the asset or CGU does not exceed the carrying amount that would have been determined, net of amortization or depreciation, if no impairment loss had been recognized.

m. **Government grants**

Government grants are recognized initially as deferred revenue when there is reasonable assurance that the Corporation will comply with the relevant conditions of the grant and the grant will be received. Grants that compensate the Corporation for expenses incurred are recognized in other revenue in the same period the related expenses are recognized. Grants that compensate the Corporation for the cost of an asset are recognized in other revenue on a straight-line basis over the estimated useful life of the asset.

n. **Employee benefits**

i. **Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

ii. **Pension plans**

The Corporation provides pension plans for all eligible employees through its participation in both a multi-employer defined contribution and a group administration defined benefit plan. For the defined benefit plan, a contractual agreement is in place stating that the Corporation's future contributions to the plan will not take into account any plan surplus or deficiency, as the Corporation does not have any rights to plan surpluses or obligations for plan deficits. As a result, under both plans the Corporation's obligations are limited to making regular payments to the plans for current service. When made, these contributions are recognized in employee benefits expense.

iii. **Retiring allowance plan**

Certain employees of the Corporation are members of a retiring allowance plan. The Corporation's obligation is the amount of future benefit that employees have earned in return for their service in the current and prior periods. At each year end, the future benefit is actuarially determined using the projected benefit method. Any actuarial gains or losses are recognized in employee benefits expense.

o. **Provisions**

Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, it is probable that the Corporation will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3. Summary of significant accounting policies (continued)

The Corporation's provisions are decommissioning liabilities. A decommissioning liability is a legal or constructive obligation associated with the decommissioning of certain natural gas facilities. The Corporation recognizes a decommissioning liability, with a corresponding increase to property, plant and equipment, in the period the facility is commissioned, provided a reasonable estimate of fair value can be determined. The estimated fair value of a decommissioning liability is based on detailed studies that take into account various assumptions regarding the anticipated future cash flows, including the method and timing of decommissioning. The Corporation discounts the future cash flows at a credit-adjusted risk free rate based on the yield of Government of Canada bonds. The unwinding of the discount on provisions is recognized in net income as finance expense over the estimated time period until settlement of the obligation. The corresponding increase to property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of the related asset. At each reporting date, the estimated fair value of a decommissioning liability is reviewed with any changes recognized in the consolidated financial statements.

p. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognized when it is probable that future economic benefits will flow to the Corporation and these benefits can be measured reliably.

i. Natural gas sales and delivery

Revenue is recognized when natural gas is delivered to the customer. An estimate of natural gas delivered but not billed is included in revenue.

ii. Transportation and storage

Revenue is recognized when transportation, storage and related services are provided to the customer. An estimate of transportation, storage and related services rendered but not billed is included in revenue.

iii. Customer capital contributions

The Corporation obtains customer capital contributions related to the construction of new service connections. Customer capital contributions are recognized initially as deferred revenue and are recognized as revenue once the related property, plant and equipment is available for use. The Corporation's customer capital contributions are often subject to refunds over a specified period. An estimate of these refunds remains in deferred revenue until the eligible refund period expires.

iv. Revenue collected for municipalities

In accordance with *The SaskEnergy Act*, the Corporation is required to collect amounts on behalf of certain municipalities. The Corporation acts in the capacity of an agent rather than as the principal in the collection of these amounts. Therefore, the revenue collected for and paid to municipalities is recognized on a net basis in operating and maintenance expense.

v. Other

Royalty revenue is recognized when natural gas from wells subject to royalty agreements is delivered to the customer. Natural gas and liquid sales are recognized when natural gas and natural gas liquids are delivered to the customer.

q. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or development of a qualifying asset are added to the cost of that asset, until it is available for use. Qualifying assets are those assets that take a substantial period of time to get ready for their intended use. As the Corporation borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Corporation capitalizes borrowing costs by applying its weighted average cost of debt. All other borrowing costs are recognized in finance expense in the period in which they are incurred.

r. Leased assets

The Corporation's leased assets are under operating leases. As the Corporation does not assume all risks and rewards of ownership, the leased assets are not recognized in the Corporation's consolidated statement of financial position. Lease payments are recognized in operating and maintenance expense in the period in which they are incurred.

3. Summary of significant accounting policies (continued)

s. New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective and have not been applied in preparing these consolidated financial statements. In particular, the following new and amended standards become effective for annual periods beginning on or after January 1, 2013:

IFRS 9 *Financial Instruments* – Introduces a new single classification and measurement model for financial assets and liabilities. The new model includes only two classifications, amortized cost and fair value. The classification depends on the entity's business model and the cash flow characteristics of the financial asset or liability.

IFRS 10 *Consolidated Financial Statements* – Requires consolidation for all investees controlled by an entity, and it provides requirements for determining when control exists.

IFRS 11 *Joint Arrangements* – Separately defines the treatment of joint operations (previously jointly controlled assets and jointly controlled operations) and joint ventures.

IFRS 12 *Disclosure of Interests in Other Entities* – Establishes disclosure objectives and minimum requirements for interests in subsidiaries, joint arrangements, associates, and unconsolidated entities.

IFRS 13 *Fair Value Measurement* – Accumulates guidance on fair value measurement previously dispersed throughout existing standards. No new requirements are set out in the standard, but additional guidance on measurement and disclosure is included.

IAS 19 *Employee Benefits* – Amends the previously published standard and discontinues the ability to defer recognition of actuarial gains and losses and requires immediate recognition in other comprehensive income.

IAS 27 *Separate Financial Statements* – Addresses accounting for subsidiaries, jointly controlled entities, and associates in non-consolidated financial statements.

IAS 28 *Investments in Associates and Joint Ventures* – Amends the previously published standard to include joint ventures in its scope and to address changes adopted in IFRS 10, IFRS 11, and IFRS 12.

These new standards and amendments all become effective for the Corporation beginning on or after January 1, 2013. The Corporation continues to review these new and updated standards and will monitor any additional changes made prior to their adoption. At this time the Corporation does not anticipate any material impact from the adoption of these standards.

4. Change in Accounting Policy

The Corporation changed its presentation of natural gas in storage held for resale and operations during the year. A specified volume of natural gas which is integral to the operation of the Corporation's storage facilities was previously presented as a separate long-term asset on the Statement of Financial Position. During the year, the Corporation changed the classification of this volume of natural gas to include it with its property, plant, and equipment. The new presentation more accurately reflects the value of this gas to the Corporation as it is integral to the storage facilities operated by the Corporation. This change has been applied retrospectively in accordance with IAS 8 and there are no impacts to income or equity as a result of this presentation change. The property, plant, and equipment balance has been increased by $33 million (2010 – $33 million) in accordance with this change.

5. Capital management

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe, reliable service to Saskatchewan residents, businesses and industries.

The Corporation finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan's General Revenue Fund, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to $1,700 million of debt upon approval of the Lieutenant Governor in Council (2010 – $1,700 million). At the end of the year, the Corporation had $1,029 million of debt outstanding (2010 – $954 million) and authority to borrow an additional $87 million of temporary loans (2010 – $161 million), including a $35 million uncommitted line of credit with Toronto-Dominion Bank (2010 – $35 million).

5. Capital management (continued)

The Corporation borrows all its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from the Province of Saskatchewan (the Province). The Corporation's borrowing requirements constitute a minor portion of the Province's total borrowings, and given the Province's strong credit rating, the Corporation was able to acquire all its funding requirements during the year.

The Corporation monitors capital on the basis of the debt ratio. The purpose of this strategy is to ensure the Corporation's debt is self supporting and does not adversely affect the Province's access to capital markets. The per cent debt ratio was calculated as net debt divided by total capital at the end of the year as detailed below.

The Corporation's objectives, policies and processes for managing its capital were consistent with the prior year, except the debt ratio target which has been adjusted to 57% given the impact of IFRS on the Corporation's retained earnings.

(millions)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Long-term debt	$ 715	$ 715	$ 795
Short-term debt	314	239	108
Bank indebtedness	–	–	1
Debt retirement funds	(73)	(59)	(57)
Cash	(21)	(1)	–
Total net debt	935	894	847
Equity advances	72	72	72
Retained earnings	544	557	556
Total capital	$ 1,551	$ 1,523	$ 1,475
	60.3%	58.7%	57.4%

6. Trade and other receivables

(millions)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Unbilled revenue	$ 51	$ 58	$ 71
Trade receivables	44	50	47
Other receivables	10	6	11
	105	114	129
Allowance for doubtful accounts	(2)	(1)	(1)
	$ 103	$ 113	$ 128

7. Natural gas in storage held for resale

(millions)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Cost	$ 259	$ 268	$ 258
Revaluation to net realizable value	(45)	(21)	–
	$ 214	$ 247	$ 258

With the decline in natural gas market prices, the net realizable value of natural gas in storage at the end of the year has fallen $45 million below cost (2010 – $21 million). During the year, the revaluation of natural gas in storage increased $24 million given the decline in natural gas market prices.

8. Inventory of supplies

The cost of inventory of supplies recognized as operating and maintenance expense during the year was $26 million (2010 – $29 million). There was no revaluation of inventory of supplies and no reversal of any prior year revaluation during the year.

9. Debt retirement funds

(millions)	2011	2010
Balance, beginning of year	$ 59	$ 57
Installments	7	7
Redemptions	–	(10)
Earnings	5	4
Change in fair value	2	1
Balance, end of year	$ 73	$ 59

The investments held in debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 8.0 per cent for the year (2010 – 6.4 per cent).

As at December 31, 2011 amounts required to be invested in debt retirement funds in each of the next five years were as follows:

(millions)	2012	2013	2014	2015	2016
Installments	$ 7	$ 7	$ 6	$ 6	$ 5

10. Investments in associates

Effective January 1, 2011, the Corporation classified its investments in associates, which include a 30.0 per cent ownership interest in Gas Sur S.A. and a 40.1 per cent ownership interest in IGASAMEX USA Ltd., as assets held for sale given the intention of the Corporation to sell these investments during the year.

On June 28, 2011 the Corporation sold its 30.0 per cent ownership interest in Gas Sur S.A. resulting in proceeds of $6 million (United States dollars) and a loss on sale of $10 million.

On September 28, 2011 the Corporation sold its 40.1 per cent ownership interest in IGASAMEX USA Ltd. resulting in proceeds of $17 million (United States dollars) and a gain on sale of $2 million.

11. Financial and derivative instruments and risk management

a. Financial instruments

(millions)	Classification	As at December 31, 2011 Carrying Amount	As at December 31, 2011 Fair Value	As at December 31, 2010 Carrying Amount	As at December 31, 2010 Fair Value	As at January 1, 2010 Carrying Amount	As at January 1, 2010 Fair Value
Financial assets							
Cash	FVTPL	$ 21	$ 21	$ 1	$ 1	$ –	$ –
Trade and other receivables	LAR	103	103	113	113	128	128
Debt retirement funds	FVTPL	73	73	59	59	57	57
Financial liabilities							
Bank indebtedness	FVTPL	–	–	–	–	1	1
Short-term debt	OL	314	314	239	239	108	108
Trade and other payables	OL	101	101	101	101	113	113
Dividends payable	OL	9	9	22	22	21	21
Long-term debt	OL	715	899	715	839	795	889

Classification details:
FVTPL – designated as at fair value through profit or loss
LAR – loans and receivables
OL – other liabilities

The fair value of the above instruments is based on the following:

i. Debt retirement funds – The market value of the investments held in debt retirement funds as determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

ii. Long-term debt – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

iii. Other financial instruments – The fair value of other financial instruments, including cash, trade and other receivables, bank indebtedness, short-term debt, trade and other payables and dividends payable approximate their carrying amounts due to the short-term nature of these instruments.

b. Natural gas derivative instruments

All natural gas derivative instruments are recorded on the consolidated statement of financial position at fair value. The fair value of natural gas derivative instruments, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes. The fair value of natural gas price options is determined using an industry-standard valuation model, which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices that are based on external market sources.

Notional values are an approximation of future undiscounted net cash flows. For physical natural gas contracts, the notional value is based on contract price. For other derivative instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price is used to estimate the contract price.

11. Financial and derivative instruments and risk management (continued)

As at December 31, 2011 natural gas derivative instruments had the following fair values, notional values and maturities:

(millions)	2012	2013	2014	2015	2016	Total
Physical natural gas contracts						
Fair value	$ 3	$ 4	$ 5	$ 3	$ –	$ 15
Notional value	(31)	16	23	16	–	24
Natural gas price swaps						
Fair value	(33)	(1)	(2)	1	–	(35)
Notional value	(34)	(1)	(2)	1	–	(36)
Total						
Fair value	$ (30)	$ 3	$ 3	$ 4	$ –	$ (20)
Notional value	$ (65)	$ 15	$ 21	$ 17	$ –	$ (12)

Fair value – increase (decrease) in net income
Notional value – estimated undiscounted net cash inflow (outflow)

The fair value of derivative instruments is presented on the consolidated statement of financial position as follows:

(millions)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Fair value of derivative instrument assets	$ 78	$ 79	$ 52
Fair value of derivative instrument liabilities	(98)	(63)	(38)
	$ (20)	$ 16	$ 14

c. Fair value of financial and derivative instruments

As at December 31, 2011 the Corporation's fair value hierarchy for financial and derivative instruments, which was consistent with the prior year's classification, was as follows:

(millions)	Level 1	Level 2	Level 3	Total
Debt retirement funds	$ –	$ 73	$ –	$ 73
Fair value of derivative instrument assets	–	78	–	78
Fair value of derivative instrument liabilities	–	(98)	–	(98)

d. Risk management

Through the normal course of business, the Corporation has exposure to market risk (natural gas price risk, interest rate risk, market risk and foreign currency risk), liquidity risk and credit risk. The Board of Directors, through the Audit and Finance Committee, has the overall responsibility for the establishment and oversight of the Corporation's risk management efforts. The Corporation seeks to manage the financial impact of natural gas price risk by using derivative instruments to manage its exposure. The Corporate Derivatives Policy and other risk management policies and strategies, approved by the Board of Directors and reviewed regularly by the Audit and Finance Committee, provide the framework within which the Corporation may use derivative instruments to manage its risks. The objectives, policies and processes for managing risk were consistent with the prior year.

11. Financial and derivative instruments and risk management (continued)

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation may use for price risk management include natural gas price swaps, options, swaptions and futures contracts.

Based on the Corporation's year end closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas derivative instruments, by $41 million (2010 – $29 million). Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas derivative instruments, by $41 million (2010 – $29 million).

ii. Interest rate risk

The Corporation's significant interest-bearing financial instruments are short- and long-term debts, which are fixed rate instruments. Consequently, the Corporation is subject to interest rate risk when issuing debt or refinancing maturities. At year end, the Corporation had $314 million of short-term debt that may be refinanced and $50 million of long-term debt which may be refinanced upon maturity in 2012. Based on these amounts, a one per cent change in interest rates would increase or decrease the annual finance expense by approximately $4 million (2010 – $2 million).

iii. Market risk

The Corporation is subject to market risk related to debt retirement funds as the recorded fair value is driven by market prices. Fluctuations in fair value of debt retirement funds do not have a significant impact on the Corporation.

iv. Foreign currency risk

The Corporation is exposed to foreign currency risk primarily through the purchase of goods and services; however, fluctuations in foreign currency do not have a significant impact on the Corporation.

v. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. The Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The contractual maturities of the Corporation's financial obligations, including interest payments and the impact of netting agreements, as at December 31, 2011 were as follows:

		Contractual Maturities				
(millions)	Carrying Amount	Less Than 1 Year	1-2 Years	3-5 Years	More Than 5 Years	Total
Short-term debt	$ 314	$ 314	$ –	$ –	$ –	$ 314
Trade and other payables	101	101	–	–	–	101
Dividends payable	9	9	–	–	–	9
Derivative instruments	98	65	–	–	–	65
Long-term debt	715	89	86	279	731	1,185
	$ 1,237	$ 578	$ 86	$ 279	$ 731	$ 1,674

At year end, the Corporation's borrowing capacity, together with relatively stable operating cash flows, provide sufficient liquidity to fund these contractual obligations.

vi. Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial or derivative instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through cash, trade and other receivables, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

11. Financial and derivative instruments and risk management (continued)

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial and derivative instruments. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At year end, the maximum credit exposure to a single counterparty was $19 million (2010 – $21 million).

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

(millions)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Cash	$ 21	$ 1	$ –
Trade and other receivables	103	113	128
Debt retirement funds	73	59	57
Fair value of derivative instrument assets	78	79	52
	$ 275	$ 252	$ 237

The following reflects an aging summary of the Corporation's trade and other receivables:

(millions)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Current	$ 97	$ 107	$ 124
30 – 59 days	6	5	3
60 – 89 days	1	1	1
Greater than 90 days	1	1	1
	105	114	129
Allowance for doubtful accounts	(2)	(1)	(1)
	$ 103	$ 113	$ 128

The change in the allowance for doubtful accounts in respect of trade and other receivables was as follows:

(millions)	2011	2010
Balance, beginning of year	$ 1	$ 1
Provision	1	–
Recoveries	2	2
Write-offs	(2)	(2)
Balance, end of year	$ 2	$ 1

12. Intangible assets

(millions)	Computer Software	Mineral Rights and Prepaid Royalties	Under Development	Total
Cost				
Balance, January 1, 2010	$ 49	$ –	$ 2	$ 51
Additions	–	3	1	4
Additions through internal development	1	–	6	7
Balance, December 31, 2010	50	3	9	62
Additions	1	–	7	8
Additions through internal development	2	–	3	5
Disposals	(1)	–	–	(1)
Balance, December 31, 2011	$ 52	$ 3	$ 19	$ 74
Accumulated amortization				
Balance, January 1, 2010	36	–	–	36
Amortization	5	–	–	5
Balance, December 31, 2010	41	–	–	41
Amortization	3	–	–	3
Balance, December 31, 2011	$ 44	$ –	$ –	$ 44
Carrying amounts				
Balance, January 1, 2010	$ 13	$ –	$ 2	$ 15
Balance, December 31, 2010	$ 9	$ 3	$ 9	$ 21
Balance, December 31, 2011	$ 8	$ 3	$ 19	$ 30

13. Property, plant and equipment

(millions)	Distribution	Transmission and Storage	Gathering, Treatment and Compression	Vehicles, Equipment and Other	Computer Hardware	Construction in Progress	Total
Cost							
Balance, January 1, 2010	$ 749	$ 781	$ 194	$ 117	$ 13	$ 52	$ 1,906
Additions	48	38	28	8	3	80	205
Disposals	(1)	–	(1)	(4)	(1)	–	(7)
Transfers	–	–	–	–	–	(72)	(72)
Balance, December 31, 2010	796	819	221	121	15	60	2,032
Additions	62	79	21	17	2	90	271
Disposals	(1)	(2)	(3)	(4)	(3)	–	(13)
Transfers	–	–	–	–	–	(111)	(111)
Balance, December 31, 2011	$ 857	$ 896	$ 239	$ 134	$ 14	$ 39	$ 2,179
Accumulated depreciation							
Balance, January 1, 2010	263	266	89	52	6	–	676
Depreciation	24	21	8	6	3	–	62
Disposals	(2)	(1)	–	(3)	(1)	–	(7)
Balance, December 31, 2010	285	286	97	55	8	–	731
Depreciation	24	23	7	8	3	–	65
Disposals	(2)	(1)	(2)	(4)	(3)	–	(12)
Balance, December 31, 2011	$ 307	$ 308	$ 102	$ 59	$ 8	$ –	$ 784
Carrying amounts							
Balance, January 1, 2010	$ 486	$ 515	$ 105	$ 65	$ 7	$ 52	$ 1,230
Balance, December 31, 2010	$ 511	$ 533	$ 124	$ 66	$ 7	$ 60	$ 1,301
Balance, December 31, 2011	$ 550	$ 588	$ 137	$ 75	$ 6	$ 39	$ 1,395

Included in Transmission and Storage is a specified volume of natural gas which is integral to the operation of the Corporation's storage facilities. This asset is not subject to depreciation and holds a carrying value of $33 million at December 31, 2011 (December 31, 2010 – $33 million).

14. Short-term debt

The Corporation's short-term debt is unsecured. At year end, short-term debt of $314 million (2010 – $239 million) was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 1.1 per cent (2010 – 1.1 per cent).

15. Trade and other payables

(millions)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Trade payables	$ 65	$ 63	$ 60
Interest payable	7	7	8
Other payables	29	31	45
	$ 101	$ 101	$ 113

16. Long-term debt

	As at December 31, 2011		As at December 31, 2010		As at January 1, 2010	
	Principal Outstanding (millions)	Effective Interest Rate (per cent)	Principal Outstanding (millions)	Effective Interest Rate (per cent)	Principal Outstanding (millions)	Effective Interest Rate (per cent)
General Revenue Fund						
1 - 5 years	$ 284	4.4	$ 200	4.3	$ 230	5.0
6 - 10 years	142	5.0	226	4.8	242	4.5
11 - 15 years	75	8.7	75	8.8	34	6.7
16 - 20 years	110	6.1	50	5.7	125	7.5
21 - 25 years	–	–	60	6.4	60	6.4
26 - 30 years	100	5.1	100	5.1	25	5.0
31 plus years	–	–	–	–	75	5.2
	711		711		791	
Unamortized debt premium/discount and issue costs	(1)		(1)		(1)	
Less: Current portion of long-term debt	(50)		–		(80)	
	660		710		710	
Other long-term debt						
31 plus years	5	13.5	5	13.5	5	13.5
	$ 665		$ 715		$ 715	

The Corporation's long-term debt is unsecured. As at December 31, 2011 principal repayments due in each of the next five years were as follows:

(millions)	2012	2013	2014	2015	2016
Principal repayments	$ 50	$ 50	$ 50	$ 50	$ 84

17. Deferred revenue

(millions)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Current			
Unearned customer capital contributions	$ 32	$ 49	$ 34
Non-current			
Unearned government grants	9	9	10
	$ 41	$ 58	$ 44

17. Deferred revenue (continued)

a. Unearned customer capital contributions

(millions)	2011	2010
Balance, beginning of year	$ 49	$ 34
Additions	32	42
Refunds	(6)	(7)
Revenue	(43)	(20)
Balance, end of year	$ 32	$ 49

b. Government grants

(millions)	2011	2010
Balance, beginning of year	$ 9	$ 10
Amortization	–	(1)
Balance, end of year	$ 9	$ 9

Unearned government grants represent amounts received to compensate the Corporation for the cost of certain items of property, plant and equipment. There are no unfulfilled conditions or other contingencies attached to these government grants.

18. Employee benefits

(millions)	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Retiring allowance plan	$ 13	$ 14	$ 14

a. Pension plans

Employees of the Corporation are members of either a multi-employer defined contribution (the Public Employees Pension Plan) or a group administration defined benefit pension plan (the Power Corporation Superannuation Plan). The financial position and performance of the Power Corporation Superannuation Plan is not calculated in a manner that allows the Corporation to utilize defined benefit accounting. Saskatchewan Power Corporation, a related Crown corporation, is responsible for any unfunded liabilities in the Power Corporation Superannuation Plan. As a result, the Corporation treats the defined benefit plan as a defined contribution plan.

During the year, the Corporation contributed $5 million (2010 – $5 million) to pension plans on behalf of employees for current services.

b. Retiring allowance plan

(millions)	2011	2010
Balance, beginning of year	$ 14	$ 14
Benefits paid	(2)	(1)
Net expense	1	1
Balance, end of year	$ 13	$ 14

18. Employee benefits (continued)

The Corporation measures its accrued employee benefits liability with an annual actuarial valuation as at December 31. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability were as follows:

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
Discount rate	3.6 per cent	4.2 per cent	5.2 per cent
Long-term rate of compensation increases	3.0 per cent	3.0 per cent	3.0 per cent
Average remaining employee service life	6.9 years	7.3 years	7.9 years

For employees who are members of the Communications, Energy & Paperworkers Union (CEP), the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon retirement in accordance with the terms of the plan.

For Executive, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to the date of retirement. Entitlements under the retiring allowance plan will be paid out to Executive upon retirement in accordance with the terms of the plan.

19. Provisions

(millions)	2011	2010
Balance, beginning of year	$ 17	$ 16
Unwinding of the discount on provisions	–	1
Balance, end of year	$ 17	$ 17

The Corporation has estimated the future cost of decommissioning certain natural gas facilities. For the purposes of estimating the fair value of these decommissioning obligations, it was assumed that these costs will be incurred between 2013 and 2110 for natural gas facilities. The undiscounted cash flows required to settle the obligations total $56 million (2010 – $53 million). Discount rates between 2.8 per cent and 4.5 per cent were used to calculate the carrying amount of the obligation (2010 – 2.8 per cent and 4.4 per cent). No funds have been set aside by the Corporation to settle these obligations.

20. Equity advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC, which reflect an equity investment in the Corporation, to form its equity capitalization.

21. Commitments and contingencies

a. Letters of credit

i. The Corporation has posted a $10 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchases and sales conducted by the Corporation on the NGX natural gas exchange in Alberta. NGX may draw upon the letter of credit if the Corporation fails to make timely payment for, or delivery of, natural gas as per the related contract.

ii. The Corporation has posted a $6 million letter of credit with the City of Medicine Hat as security for natural gas purchases. The City of Medicine Hat may draw upon the letter of credit if the Corporation fails to make timely payment for natural gas as per the related natural gas contract.

21. Commitments and contingencies (continued)

b. Commitments

i. The Corporation has budgeted to spend $258 million on capital projects in 2012. Included in this total is a commitment of $19 million to purchase the corporate head office building.

ii. At year end, the Corporation has $31 million of outstanding contractual commitments for the procurement of goods and services in the future.

c. Leases

As at December 31, 2011 future minimum lease payments for operating leases entered into by the Corporation, as lessee, were as follows:

(millions)	2012	2013	2014	2015	2016	Thereafter
Mininum lease payments	$ 1	$ 1	$ –	$ –	$ –	$ 1

d. Contingencies

The Corporation has been named a defendant in a number of civil actions in relation to a natural gas explosion that occurred April 2008 in Nipawin, Saskatchewan. The Corporation has denied liability on all claims, which remain at an early stage, and does not expect the outcome to result in any material financial impact.

In June 2011 three statements of claim were filed against the Corporation in relation to a home explosion, a basement fire and a garage fire during the spring of 2011 in Regina, Saskatchewan. These claims remain at an early stage, statements of defence have not yet been filed and the Corporation does not expect the outcome to result in any material financial impact.

22. Unrealized market value adjustments

(millions)	2011	2010
Change in fair value of debt retirement funds	$ 2	$ 1
Change in fair value of natural gas derivative instruments	(36)	2
Change in revaluation of natural gas in storage to net realizable value	(24)	(21)
	$ (58)	$ (18)

Unrealized market value adjustments represent the impact on net income of adjusting financial and derivative instruments to their fair values as described in Note 11, and adjusting the carrying value of inventory to its net realizeable value as described in Note 7. These adjustments are determined in accordance with the Corporation's accounting policies as described in Note 3. They represent the change in the market value of these items since December 31, 2010 and are dependent on the market prices and expected delivery dates at the reporting date.

23. Natural gas sales and purchases

(millions)	2011 Commodity	2011 Gas Marketing	2011 Total	2010 Commodity	2010 Gas Marketing	2010 Total
Natural gas sales						
Natural gas sales to commodity customers	$ 294	$ –	$ 294	$ 276	$ –	$ 276
Realized on natural gas derivative instruments	–	275	275	–	356	356
Change in fair value of natural gas derivative instruments	–	2	2	–	30	30
	294	277	571	276	386	662
Natural gas purchases						
Realized on natural gas derivative instruments	(284)	(234)	(518)	(275)	(309)	(584)
Change in fair value of natural gas derivative instruments	(43)	5	(38)	(30)	2	(28)
Change in revaluation of natural gas in storage to net realizable value	–	(24)	(24)	–	(21)	(21)
	(327)	(253)	(580)	(305)	(328)	(633)
	$ (33)	$ 24	$ (9)	$ (29)	$ 58	$ 29

24. Other revenue

(millions)	2011	2010
Royalty revenue	$ 2	$ 3
Natural gas liquid sales	10	6
	$ 12	$ 9

25. Revenue collected for and paid to municipalities

The Corporation is required to remit to 109 urban municipalities, in accordance with the provisions of *The SaskEnergy Act*, an amount calculated as either three per cent or five per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and are then remitted to the respective municipalities. During the year, the amount collected for and paid to municipalities, which was recognized on a net basis in operating and maintenance expense, was $18 million (2010 – $17 million).

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the amount collected to those municipalities. During the year, the amount collected for and paid to municipalities, which was recognized on a net basis in operating and maintenance expense, was $2 million (2010 – $2 million).

26. Depreciation and amortization

(millions)	2011	2010
Depreciation of property, plant and equipment	$ 65	$ 62
Amortization of intangible assets	3	5
	$ 68	$ 67

The composite rate of depreciation was 3.2 per cent during the year (2010 – 3.2 per cent), and the composite rate of amortization was 6.8 per cent during the year (2010 – 10.0 per cent).

27. Saskatchewan taxes

(millions)	2011	2010
Corporate capital tax	$ 8	$ 8
Property taxes and other	2	1
	$ 10	$ 9

28. Net finance expenses

(millions)	2011	2010
Debt retirement funds earnings	$ 5	$ 4
Change in fair value of debt retirement funds	2	1
Finance income	7	5
Interest expense on short-term debt	(3)	(1)
Interest expense on long-term debt	(39)	(42)
Unwinding of the discount on provisions	–	(1)
Borrowing costs capitalized to qualifying assets	2	1
Finance expenses	(40)	(43)
Net finance expenses	$ (33)	$ (38)

Borrowing costs were capitalized to qualifying assets using the weighted average cost of debt of 4.0 per cent during the year (2010 – 4.2 per cent).

29. Net change in non-cash working capital related to operations

(millions)	2011	2010
Trade and other receivables	$ 10	$ 15
Natural gas in storage held for resale	9	(10)
Inventory of supplies	(2)	1
Trade and other payables	–	(11)
Deferred revenue	(17)	15
	$ –	$ 10

30. Related party transactions

Balances and transactions between SaskEnergy and its wholly owned subsidiaries, which are related parties of SaskEnergy, have been eliminated upon consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

a. Transactions with key management personnel

Key management personnel include directors and executive officers. The compensation paid to key management for employee services was as follows:

(millions)	2011	2010
Short-term benefits	$ 3	$ 3
	$ 3	$ 3

30. Related party transactions (continued)

b. Other related party transactions

As a Crown corporation, the Corporation is ultimately controlled by the Government of Saskatchewan. Included in the consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Government-related entities are exempt from providing disclosure about individual related party transactions, other than the transactions with key management personnel disclosed above. Instead, government-related entities are required to disclose the types and extent of individually or collectively significant transactions with related parties. In determining individually significant transactions, the Corporation considers the size, type and terms of the transaction.

During the year the Corporation received $12 million (2010 – $18 million) from its parent company, Crown Investments Corporation of Saskatchewan. The payments represent full reimbursement of the Corporation's costs associated with administering the Saskatchewan EnerGuide for Houses grant program. The reimbursements and associated costs have been recognized on a net basis in operating and maintenance expenses. There were no other individually or collectively significant transactions with related parties for the year and comparative year. All other transactions with related parties are routine operating transactions that are settled at prevailing market prices under normal trade terms.

31. Transition to IFRS

As stated in Note 2, these are the Corporation's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied consistently in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information and the opening IFRS consolidated statement of financial position as at January 1, 2010 (the Corporation's date of transition to IFRS).

In preparing its opening IFRS consolidated statement of financial position, the Corporation adjusted certain amounts reported previously in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS affected the Corporation's financial position, financial performance and cash flows is set out in the following reconciliations and accompanying notes.

Reconciliation of financial position

		As at January 1, 2010				As at December 31, 2010			
(millions)	Notes	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS Balance	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
Assets									
Current assets									
Cash		$ –	$ –	$ –	$ –	$ 1	$ –	$ –	$ 1
Trade and other receivables		128	–	–	128	113	–	–	113
Natural gas in storage held for resale		258	–	–	258	247	–	–	247
Inventory of supplies		9	–	–	9	8	–	–	8
Debt retirement funds		9	–	–	9	–	–	–	–
Fair value of derivative instruments		52	–	–	52	79	–	–	79
		456	–	–	456	448	–	–	448
Intangible assets		15	–	–	15	18	–	3	21
Property, plant and equipment	b,c,d,e,f	1,038	192	–	1,230	1,090	214	(3)	1,301
Debt retirement funds		48	–	–	48	59	–	–	59
Investments in associates		30	–	–	30	29	–	–	29
		$ 1,587	$ 192	$ –	$ 1,779	$ 1,644	$ 214	$ –	$ 1,858

31. Transition to IFRS (continued)

Reconciliation of financial position (continued)

		As at January 1, 2010				As at December 31, 2010			
(millions)	Notes	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS Balance	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS Balance
Liabilities and Province's equity									
Current liabilities									
Bank indebtedness		$ 1	$ –	$ –	$ 1	$ –	$ –	$ –	$ –
Short-term debt		108	–	–	108	239	–	–	239
Trade and other payables	b	141	(14)	(14)	113	135	(20)	(14)	101
Dividends payable		21	–	–	21	22	–	–	22
Current portion of long-term debt		80	–	–	80	–	–	–	–
Deferred revenue	b	–	34	–	34	–	49	–	49
Fair value of derivative instruments		38	–	–	38	63	–	–	63
		389	20	(14)	395	459	29	(14)	474
Employee benefits		–	–	14	14	–	–	14	14
Provisions	f	8	8	–	16	8	9	–	17
Deferred revenue	c	–	10	–	10	–	9	–	9
Long-term debt		715	–	–	715	715	–	–	715
		1,112	38	–	1,150	1,182	47	–	1,229
Province's equity									
Equity advances		72	–	–	72	72	–	–	72
Retained earnings	b,d,e,f,g	406	150	–	556	394	163	–	557
Other components of equity	g	(3)	4	–	1	(4)	4	–	–
		475	154	–	629	462	167	–	629
		$ 1,587	$ 192	$ –	$ 1,779	$ 1,644	$ 214	$ –	$ 1,858

31. Transition to IFRS (continued)

Reconciliation of comprehensive income

(millions)		For the Year Ended December 31, 2010				
Canadian GAAP Accounts	Notes	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS Balance	IFRS Accounts
Revenue						**Revenue**
Commodity sales		$ 276	$ –	$ 386	$ 662	Natural gas sales
Gas marketing sales		386	–	(386)	–	
Delivery		185	–	–	185	Delivery
Transportation and storage		77	–	–	77	Transportation and storage
Revenue collected for municipalities		19	–	(19)	–	
	b	–	20	–	20	Customer capital contributions
Other		9	–	–	9	Other
		952	20	(19)	953	
Expenses						**Expenses**
Commodity cost of gas sold		306	–	327	633	Natural gas purchases (net of change in inventory)
Gas marketing cost of gas sold		329	–	(329)	–	
		–	–	84	84	Employee benefits
Operating and maintenance	e	156	(1)	(83)	72	Operating and maintenance
Interest		37	–	(37)	–	
Amortization	b,d,e	59	8	–	67	Depreciation and amortization
Payments to municipalities		19	–	(19)	–	
Saskatchewan taxes		9	–	–	9	Saskatchewan taxes
		915	7	(57)	865	
Net income		37	13	38	88	**Net income before the following**
		–	–	5	5	Finance income
		–	–	(43)	(43)	Finance expenses
		–	–	(38)	(38)	**Net finance expenses**
Net income		37	13	–	50	**Net income**
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations		(1)	–	–	(1)	Foreign currency translation adjustments
Total comprehensive income		$ 36	$ 13	$ –	$ 49	**Total comprehensive income**

31. Transition to IFRS (continued)

Reconciliation of equity

(millions)	Notes	As at January 1, 2010	As at December 31, 2010
Province's equity under Canadian GAAP		$ 475	$ 462
Customer capital contributions	b	157	172
Deemed cost	d	7	6
Major inspections	e	(3)	(4)
Decommissioning liabilities	f	(7)	(7)
Adjustments to Province's equity		154	167
Province's equity under IFRS		$ 629	$ 629

Reconciliation of cash flows

Bank indebtedness was classified as financing cash flows under Canadian GAAP. These overdrafts were reclassified as cash and cash equivalents under IFRS as they are repayable on demand and form an integral part of the Corporation's cash management.

Under Canadian GAAP, the Corporation included interest paid as part of operating cash flows. Under IFRS, interest paid has been classified as part of financing cash flows.

Under Canadian GAAP, customer capital contributions and deposits received were included in investing cash flows. Under IFRS, customer capital contributions are included in operating cash flows.

There are no other material differences between the consolidated statement of cash flows presented under IFRS and the consolidated statement of cash flows presented under Canadian GAAP.

Notes to the reconciliations

The Corporation is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening consolidated statement of financial position under IFRS. IFRS 1 *First-time Adoption of IFRS* provides a number of exemptions upon first-time adoption of IFRS. The exemptions the Corporation applied in preparing the January 1, 2010 consolidated statement of financial position are described below.

In preparing the consolidated financial statements, the Corporation reclassified amounts previously reported under Canadian GAAP to conform to presentation requirements of IFRS. These reclassifications are separately identified in the previous reconciliations and therefore have not been described below.

The adjustments to the consolidated financial statements resulting from transition to IFRS as well as the exemptions applied in preparing the opening consolidated statement of financial position were as follows:

a. **Estimates**

IFRS 1 prohibits retrospective application of some aspects of certain IFRS. Hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

b. **Customer capital contributions**

Under Canadian GAAP, the Corporation included customer capital contributions in property, plant and equipment and depreciated these contributions on a straight-line basis over the estimated useful life of the related asset.

Under IFRIC 18 *Transfer of Assets from Customers*, the Corporation recognizes customer capital contributions as revenue once the related property, plant and equipment is available for use and any related refund period has expired.

31. Transition to IFRS (continued)

The impact arising from the change is summarized as follows:

(millions)	January 1, 2010	December 31, 2010
Consolidated statement of financial position		
Property, plant and equipment	$ 177	$ 200
Trade and other payables	(14)	(21)
Deferred revenue	34	49
Adjustment to retained earnings	$ 157	$ 172

Consolidated statement of comprehensive income	
Customer capital contributions	$ 20
Depreciation and amortization	5
Adjustment to total comprehensive income	$ 15

c. **Government grants**

The Corporation's government grants relate to the cost of specific items of property, plant and equipment. Under Canadian GAAP, the Corporation netted government grants with property, plant and equipment. Government grants were amortized on a straight-line basis over the estimated useful life of the related items of property, plant and equipment.

Under IFRS, the Corporation will continue to amortize government grants on a straight-line basis over the estimated useful life of the related items of property, plant and equipment. However, the unamortized portion of government grants is recognized as deferred revenue.

The impact arising from the change is summarized as follows:

(millions)	January 1, 2010	December 31, 2010
Consolidated statement of financial position		
Property, plant and equipment	$ 10	$ 9
Deferred revenue	10	9
Adjustment to retained earnings	$ –	$ –

d. **Deemed cost**

IFRS 1 provides an optional exemption to use the fair value of an item of property, plant and equipment as at the date of transition to IFRS as its deemed cost. On transition to IFRS the Corporation elected to apply the optional exemption to certain items of property, plant and equipment. The fair value of these items of property, plant and equipment was based on market values as determined by an external, independent valuation company. The market values were determined using market evidence of transaction prices in an arm's length transaction for similar items as at the date of transition to IFRS.

At the date of transition to IFRS, the aggregate fair value of these items of property, plant and equipment was $11 million while the aggregate carrying amount reported under Canadian GAAP was $4 million.

31. Transition to IFRS (continued)

The impact arising from the change is summarized as follows:

(millions)	January 1, 2010	December 31, 2010
Consolidated statement of financial position		
Property, plant and equipment	$ 7	$ 6
Adjustment to retained earnings	$ 7	$ 6
Consolidated statement of comprehensive income		
Depreciation and amortization		$ 1
Adjustment to total comprehensive income		$ (1)

e. **Major inspections**

Under IAS 16 *Property, Plant and Equipment* the cost of all major inspections are recognized in the carrying amount of property, plant and equipment and depreciated over the period between inspections. The carrying amount of the previous inspection, if any, is derecognized.

Under Canadian GAAP, the Corporation capitalized the initial major inspection. The cost was depreciated over the life of the related asset rather than the period between inspections. Subsequent inspections were expensed as incurred.

The impact arising from the change is summarized as follows:

(millions)	January 1, 2010	December 31, 2010
Consolidated statement of financial position		
Property, plant and equipment	$ (3)	$ (4)
Adjustment to retained earnings	$ (3)	$ (4)
Consolidated statement of comprehensive income		
Operating and maintenance		(1)
Depreciation and amortization		2
Adjustment to total comprehensive income		$ (1)

f. **Decommissioning liabilities**

Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* decommissioning liabilities are recognized when there is a legal or constructive obligation. Under Canadian GAAP the Corporation recognized an asset retirement obligation when a legal obligation existed, and any decommissioning costs related to constructive obligations were expensed as incurred. In accordance with IFRS and the Corporation's environmental policy, the Corporation has recognized both legal and constructive obligations related to the decommissioning of certain natural gas facilities on transition to IFRS.

IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added or deducted from the cost of the asset to which it relates. The adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life.

IFRS 1 provides an exemption from the retrospective application requirement of IFRIC 1. The exemption from full retrospective application means that the Corporation was not required to estimate the provision that would have been calculated at earlier reporting dates. Instead, the decommissioning liability was calculated at the date of transition to IFRS. It was then assumed that the same liability, adjusted only for the time value of money, existed when the asset was first acquired or constructed.

31. Transition to IFRS (continued)

The impact arising from the change is summarized as follows:

(millions)	January 1, 2010	December 31, 2010
Consolidated statement of financial position		
Property, plant and equipment	$ 1	$ 2
Provisions	8	9
Adjustment to retained earnings	$ (7)	$ (7)

g. Cumulative translation differences

On translation of a foreign operation in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* certain exchange differences are recognized as a separate component of equity. On subsequent disposal of the foreign operation, the accumulated translation differences related to the foreign operations are recognized in net income for the period as part of the gain or loss on disposal.

IFRS 1 permits the Corporation to not calculate the translation difference related to foreign operations retrospectively. Instead, the translation difference calculated under Canadian GAAP is reset to zero at the date of transition to IFRS. IAS 21 was applied prospectively from the date of transition to IFRS, and the gain or loss on any subsequent disposal of a foreign operation will only include foreign exchange differences that arose after the date of transition to IFRS.

The impact arising from the change is summarized as follows:

(millions)	January 1, 2010	December 31, 2010
Consolidated statement of financial position		
Other components of equity	$ 4	$ 4
Adjustment to retained earnings	$ (4)	$ (4)

h. Borrowing costs

IFRS 1 permits the Corporation to apply IAS 23 *Borrowing Costs* retrospectively or prospectively from the date of transition to IFRS. The Corporation has elected to apply IAS 23 prospectively on transition to IFRS, and as such, the Corporation will capitalize borrowing costs to qualifying assets in accordance with IAS 23 after the date of transition to IFRS.

i. Leases

IFRS 1 provides the option to a first-time adopter that under its previous GAAP has made an assessment as to whether an arrangement contains a lease at a date other than required by IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. Under the exemption, a first-time adopter is not required to reassess its previous determination if the requirements under previous GAAP would result in the same outcome as under IFRIC 4. The Corporation utilized the IFRS exemption as the requirements under Canadian GAAP would have resulted in the same outcome as under IFRIC 4.

In addition, for arrangements not assessed under Canadian GAAP, the Corporation applied the exemption that permits the Corporation to apply IFRIC 4 to these arrangements at the date of transition to IFRS rather than at the inception date of the arrangement. There was no impact on the consolidated financial statements.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Robert (Rob) Pletch, Q.C.
MacPherson Leslie & Tyerman LLP
(Board Chair, SaskEnergy)
Regina, Saskatchewan

Mr. Pletch is Chairman and a Senior Partner of MacPherson Leslie & Tyerman LLP. He has acted for major clients regarding mergers, acquisitions, financings and development strategies. He holds both a Bachelor of Arts and Law Degree and has served the Saskatchewan business community in the areas of commercial and corporate law for more than 30 years. Mr. Pletch has served as Chair of the SaskEnergy Board of Directors since 2008, and is a member of the Audit and Finance Committee and the Human Resources/Compensation Committee.

Nadine Krenosky
Chartered Accountant
(Vice Chair, SaskEnergy)
Regina, Saskatchewan

Ms. Krenosky has over 15 years of experience in the financial services industry. She has worked for two public accounting firms, a regulatory body, and was Chief Compliance Officer of a large asset management firm. Ms. Krenosky is a Chartered Accountant and Chartered Financial Analyst Charterholder, and has a Chartered Director designation. She is Vice-Chair, and has served on SaskEnergy's Board of Directors since 2004. She is also Chair of the Audit and Finance Committee and a member of the Human Resources/Compensation Committee.

James Baker
J. P. Baker Management Inc.
Regina, Saskatchewan

Mr. Baker is President of J. P. Baker Management Inc. and has extensive experience in the oil and gas industry. His experience includes operating a consulting business specializing in the business development of oil- and gas-related initiatives in Saskatchewan and Alberta. Mr. Baker has served on the SaskEnergy Board since 2008. He is Chair of the Business Development Committee and a member of the Safety and Corporate Social Responsibility Committee.

David Bishop
McKercher LLP
Regina, Saskatchewan

Mr. Bishop is a partner at McKercher LLP where he practices commercial and residential real estate law, business law, criminal defence, criminal prosecution (as an agent of the Attorney General for Canada), and elder law. Actively involved in the legal community, he holds a Bachelor of Arts Degree, a Bachelor of Law Degree and a Chartered Director designation from The Directors College program of McMaster University. Mr. Bishop has served on the Board of Directors since 2008. He is Chair of the Safety and Corporate Social Responsibility Committee and a member of the Human Resources/Compensation Committee.

Curt Chickoski
Martens Ranch Ltd./MCM Ranching Ltd.
Swift Current, Saskatchewan

Mr. Chickoski owns and manages two successful cattle and horse operations. He also serves on the Canadian Agri-Stability Appeals Committee, the Swift Current Creek Watershed Board, and as local supervisor for the Saskatchewan Cattle Feeders Association. Mr. Chickoski joined SaskEnergy's Board of Directors in 2010 and is a member of the Business Development Committee.

Grant Gayton
Regina, Saskatchewan

Mr. Gayton has been a successful CEO and investor in information technology, publishing, and printing. He co-founded and developed Management Systems Limited, which became Saskatchewan's largest independent systems company and is now part of ISM Canada Ltd, a wholly owned subsidiary of IBM. As CEO of DirectWest Publishers and, later, of PrintWest Communications, he increased profitability and positioned both companies for future success. Past Chair of the Information Services Corporation Board of Directors and a past member of the Saskatchewan Roughriders Board, Mr. Gayton holds a Chartered Director designation from The Directors College program of McMaster University. He was appointed to the SaskEnergy Board of Directors in 2010 and is a member of the Audit and Finance Committee and the Business Development Committee.

Sharon Hodgson
Rural Municipality of Big River
Big River, Saskatchewan

Ms. Hodgson serves as Councillor for the Rural Municipality of Big River. Prior to that, she owned a forestry industry/road building business for 30 years, followed by a successful elk farm business, which was developed into one of the first registered trophy ranches in Saskatchewan. Ms. Hodgson has been a member of SaskEnergy's Board of Directors since 2010. She serves on the Governance Committee and the Safety and Corporate Social Responsibility Committee.

Neal Krawchuk
Mega Group Inc.
Saskatoon, Saskatchewan

Mr. Krawchuk is Vice President of Credit and Administration of Mega Group Inc., a privately held management and marketing company servicing the home furnishing industry throughout Canada and the United States. In addition, Mr. Krawchuk is a past member of the Investment Saskatchewan Board of Directors, and has extensive experience in commercial finance, sales and customer service. Mr. Krawchuk was appointed to SaskEnergy's Board of Directors in 2009 and is a member of the Audit and Finance Committee and the Safety and Corporate Social Responsibility Committee.

Alfred Labas
Private Farming Operation
Yorkton, Saskatchewan

Mr. Labas owns and operates a long-standing family grain farm in Lestock, Saskatchewan. His professional experience includes service with Federated Co-operatives Limited, the Department of Indian and Northern Affairs, and a private accounting practice specializing in farm accounting and taxation. He also held leadership positions in various departments of the Provincial Government, and is active in the community. He was appointed to SaskEnergy's Board of Directors in 2010 and is a member of the Audit and Finance Committee.

Mitch McLeod
Oilflow Solutions Incorporated
Calgary, Alberta

Mr. McLeod is Business Development Manager at Oilflow Solutions Incorporated, a Calgary-based developer and provider of oil-related technology. Mr. McLeod has a Bachelor of Public Administration degree, a Chartered Director designation and more than 20 years of experience in the oil and gas industry. He was appointed to SaskEnergy's Board of Directors in 2009 and is a member of the Business Development Committee and the Governance Committee.

James Rybchuk, Q.C.
McDougall Gauley LLP
Regina, Saskatchewan

Mr. Rybchuk has worked for McDougall Gauley LLP since 1994 and holds a Bachelor of Law degree. His legal focus includes business law and litigation. Mr. Rybchuk also acts for and advises provincial, national and international businesses and governments on their governance, organizational and related business affairs and dealings, including the day-to-day management and operations of their interests. Mr. Rybchuk has served on the Board of Directors since 2008. He is Chair of the Governance Committee and a member of the Human Resources/Compensation Committee.

Victor Thomas
E. VO Global
Regina, Saskatchewan

Mr. Thomas is an Executive Director of E.VO Global. He has worked with companies around the world in the areas of governance, strategy and business development. He has a Chartered Director designation from The Directors College program of McMaster University and a Master of Administration degree in Leadership from the University of Regina. He serves on several boards, councils and committees throughout the country and, in 2011, was Chair of the Regina & District Chamber of Commerce. Mr. Thomas has served on the SaskEnergy Board of Directors since 2008. He is Chair of the Human Resources/Compensation Committee and a member of the Governance Committee.

Terry Ross
Crown Investments Corporation of Saskatchewan
(Board Secretary)
Regina, Saskatchewan

Mr. Ross has been an employee of CIC since 2005, with prior experience at Natural Resources Canada and Saskatchewan Environment, and is a former member of the Canadian Armed Forces. He has a Bachelor of Arts degree from the University of Saskatchewan, a Diploma in Resource Management from the Saskatchewan Institute of Applied Science and Technology and has attained a Chartered Director designation from McMaster University, DeGroote School of Business. Mr. Ross has been the Board Secretary since June 2011.

EXECUTIVE COMMITTEE

Back row: Dean Reeve, Debbie McKague, Colleen Huber, Mark Guillet Front row: Robert Haynes, Doug Kelln, Phil Sandham, Dennis Terry

Doug Kelln
President and
Chief Executive Officer

Mr. Kelln brought a wide range of company knowledge when he was appointed President & CEO of SaskEnergy in 2004. Since starting with SaskPower's natural gas division in 1982, he has had increasing levels of responsibility in the areas of engineering, construction, planning, customer services, distribution operations, marketing and business development within SaskEnergy and TransGas. Mr. Kelln has a Bachelor of Civil Engineering degree.

Mark Guillet
Vice President, General Counsel
and Corporate Secretary

Mr. Guillet is the Vice President, General Counsel and Corporate Secretary for the Corporation and is responsible for the Legal and Land Departments. He is also the Chief Privacy Officer. Mr. Guillet is a graduate of the University of Saskatchewan, a member of the Law Society of Saskatchewan, and has experience in corporate, commercial, governance and privacy legal issues.

Robert Haynes
Vice President, Human Resources
and Corporate Affairs

Mr. Haynes joined SaskEnergy in 1988 when he was appointed to the position of General Counsel and Corporate Secretary. In 1995, he became Vice President of Human Resources, adding Corporate Affairs responsibilities in 2011. In this role, Mr. Haynes is responsible for all aspects of the Corporation's human resources policies and practices, including the Corporation's Safety, Health & Environment area, as well as strategic corporate communication with key stakeholders, including employees, the media and government. Mr. Haynes has a Bachelor of Administration Degree, Public Policy and a Juris Doctor.

Colleen Huber
Vice President,
Corporate Support

Ms. Huber is responsible for corporate technology, corporate procurement and inventory, buildings and security, and vehicles and equipment. She joined the Executive in 2000 after successfully progressing through various management positions within TransGas and SaskEnergy. She is a graduate of the University of Regina.

Debbie McKague
Vice President, TransGas and
Bayhurst Gas Business Services

Ms. McKague is responsible for TransGas Customer Services, Pipeline Control and Planning, and TransGas Policies, Rates and Regulations. In 2010, she also assumed Executive responsibility for Bayhurst Gas Limited, a role that was previously shared across several members of the Executive team. Over the years, Ms. McKague has gained experience in various areas including Accounting, Billing Services, Rates, Gas Supply and, most recently, TransGas Customer Services.

Dean Reeve
Executive Vice President,
SaskEnergy

Mr. Reeve has worked in a number of financial, business development and customer service functions within SaskEnergy and TransGas and is currently the Executive Vice President responsible for SaskEnergy's Distribution Utility, Gas Supply and Business Development areas. In this role, he leads the customer service functions, business and marketing initiatives of SaskEnergy. Mr. Reeve has a Bachelor of Administration degree and a Chartered Accountant designation.

Phil Sandham
Vice President, Engineering,
Construction and TransGas Operations

Mr. Sandham brings leadership and experience from his previous senior positions in Transmission Operations, Engineering and Technology, and Customer Services, to his current role as Vice President of Engineering, Construction and TransGas Operations. He is responsible for ensuring the safe and reliable operation of the transmission system and overseeing the environmental initiatives for the Corporation. Mr. Sandham has a Bachelor of Science in Civil Engineering.

Dennis Terry
Vice President, Finance
and Chief Financial Officer

Mr. Terry joined SaskEnergy in 2009. Prior to joining SaskEnergy, he was Chief Financial Officer for Yara Belle Plaine Inc. and gained experience in gas price management strategy development and oversight related to significant natural gas commodity purchases and hedging activities. Mr. Terry's areas of responsibility include strategic planning, financial planning and reporting, billing services, budget leadership and treasury. Mr. Terry has a Bachelor of Administration degree and a Chartered Accountant designation.

CORPORATE GOVERNANCE DISCLOSURE

SaskEnergy's commitment to advanced governance practices demonstrates accountability to the Owner and its customers. Effective governance helps ensure that SaskEnergy operates as both a financially viable organization and a responsible Corporation.

SaskEnergy governance practices ensure that the Corporation's customers and employees are provided with fair and equitable treatment and that the correct levels of authority and accountability are established so that all employees can accomplish their work without unnecessary limitations or risks. Details on SaskEnergy's 2011 corporate governance results are available on the SaskEnergy website:

http://www.saskenergy.com/about_saskenergy/annual_report/documents/2011/Corporate_Governance.pdf.

GLOSSARY OF KEY SUCCESS MEASURES

OUR FUTURE

Financial Health

Debt/Equity Ratio	This measure is the typical financial ratio that is calculated by dividing total debt (short and long-term) by the sum of total debt plus total owner's equity.
Rate of Return on Equity	The Rate of Return on Equity for Regulated Utility Operations reflects the target that the Utility plans to achieve over a 12-month test period, using the equity amount of 37 per cent of the regulated rate base. The consolidated rate of return on equity is measured by dividing the consolidated net income by the average owner's equity over the year. The average is determined as the simple average of the opening owner's equity and the closing owner's equity.
Income Before Unrealized Market Value Adjustments	Income refers to the total consolidated income before unrealized market value adjustments. It does include the customer contribution revenue, consistent with International Financial Reporting Standards.

Community Investment

Projects Supported	This measure tracks the number of projects, events and programs that have been undertaken by the Corporation.
Communities Impacted	The relative success of SaskEnergy's community investment activities is also measured by the number of urban and rural communities impacted each year. As Saskatchewan's natural gas provider, serving more than 90 per cent of the population, SaskEnergy strongly believes its sponsorships and community investments should be directly targeted to the places where its stakeholders live.
Aboriginal Contracts – Percentage of Labour Content	This measure tracks the percentage of Aboriginal labour content in the organization's labour service contracts and supplier alliance agreements, managed by the Purchasing Department.

The Environment

Customer Efficiency Programs	This is the number of customers directly and indirectly benefiting from customer energy efficiency programs.
Internal Energy Efficiencies	This measure tracks the effects of the Corporation's energy efficiency improvements which reduce fuel usage. It includes reductions in compressor fuel, line heater fuel, building heating, lighting, air conditioning, vehicle fuel usage, and reduction in electricity used in compressors, rectifiers, and other compressor station functions. Energy consumption reductions will be tracked in Terajoules (1,000 GJ) at an assumed price of $4/GJ.
Percentage of "Go Green" Regulatory Target Achieved	This initiative consists of GHG emission reductions governed by the targets that have been proposed by the Provincial government, as part of the "Go Green" Action Plan. The focus will be on fuel gas and energy efficiency improvements as well as the capture of vented gas and reduction of vented emissions throughout the Corporation's business activities. SaskEnergy and TransGas will strive to reduce their carbon dioxide emissions from fuel combustion and reduce methane emissions from pipeline and compressor station venting to achieve the reduction target. This measure tracks the percentage of the "Go Green" reduction target achieved by the Corporation.

OUR GROWTH

Business Development	Beginning in 2012, the Rate of Return on Investment measure is calculated as the earnings before interest, depreciation, taxes and amortization (EBITDA) over the capital investment, after the project has a minimum of 12 months of operation. The Direct Capital Investment measure tracks the capital investment undertaken by SaskEnergy and its subsidiaries for Business Development, which includes the total business development activity undertaken by all subsidiaries of SaskEnergy, including TransGas non-core activity, BGSI (the joint venture), the Kisbey Gas Processing Plant and activity related to alternative energy solutions and CO_2 initiatives. The Third Party Capital Leveraged measure tracks the capital invested by third parties in business development initiatives undertaken by SaskEnergy or its subsidiaries. For greater clarity, it does not include capital contributions from customers for customer-specific assets related to utility services.
Core Growth – Capital Investment in New Infrastructure	This measure includes the combined TransGas and SaskEnergy investment in core capital projects – including the capital investment required to build new facilities to bring gas from Alberta to meet Saskatchewan demand. Capital for storage expansion (Energy to Store projects) is included in this measure, but capital for asset renewal is excluded. This measure is calculated net of customer contributions.

OUR SERVICE

Efficient Operations & Competitive Rates

Distribution	The Operation, Maintenance and Administration (OMA) Costs per customer measure is a proxy for the relative efficiency of the Distribution Utility's operations and is calculated using OMA expenses (excludes transportation and storage expenses) divided by the total number of distribution customers (approximately 355,000 customers in late 2011). This measure is comparable to other Canadian Gas Utilities. The Competitive Residential Delivery Rates measure reports the ranking of SaskEnergy's natural gas distribution delivery service rates, relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders, or surcharges approved by the utility's regulator. Federal, provincial and municipal taxes are excluded from the comparison as are any Government rebates that are not directly approved by the SRRP.
TransGas	The Rate of OMA Costs measure is a proxy for the relative efficiency of the Transmission Utility's operations and is calculated using OMA expenses (excludes third-party transportation charges) divided by the total value of the assets managed as part of the TransGas transmission system. As a benchmark measurement on competitive natural gas transportation rates, the TransGas Export Rate is compared to that offered by TransCanada Pipeline's Nova Gas Limited subsidiary (NOVA) – a company that provides services in Alberta similar to those provided by TransGas in Saskatchewan. The measure compares the cost of moving natural gas from any receipt point in Saskatchewan to the export market with the cost of moving natural gas from the average receipt point in Alberta to the export market.

Customer Satisfaction

Customer Satisfaction Index – SaskEnergy	The SaskEnergy customer satisfaction measure expresses, in percentage terms, the proportion of customers surveyed who rated their overall satisfaction with SaskEnergy's service as a 5, 6, or 7 on a 7-point scale. Positive responses such as these indicate that customers view SaskEnergy service positively and provide a strong indication that the customer service tools, policies and staff are effectively meeting the needs of customers. The data for this measure is obtained from customer surveys conducted by independent market research firms, typically once per year in May/June.
Customer Satisfaction Index – TransGas	This number is derived from an annual online survey that is provided to all TransGas customers. The internet method is used because all customers utilize electronic business tools to conduct business with TransGas. Customer satisfaction is measured on a scale of 0 to 5, with 5 being the highest level of satisfaction. The survey contains 15 questions which, in turn, are subdivided to gain detailed feedback on various aspects of the service being evaluated. Questions regarding staff utilize five factors to gauge customer satisfaction. These are: Empowerment, Accessibility, Responsiveness, Knowledge, and Friendliness. An average is taken on the responses to all questions and reported as a percentage.

Safe & Reliable

SaskEnergy Safe and Reliable Index	This measure for safe and reliable service for SaskEnergy is based upon a number of leading and lagging indicators that are averaged to produce a composite result. The calculation methodology provides a 60 per cent weighting for lag indicators and a 40 per cent weighting for lead indicators. The lag indicators focus on system outages and provide reliability ratings based on the causes for the outage (system failure, SaskEnergy operator error, or caused by third-party) as well as the impacts of the outage in terms of number of customers impacted, duration of the outage, the costs to restore service, and the response time. The lead indicators provide ratings based upon the percentage of planned maintenance completed and the percentage of training and job observations completed.
TransGas Safe and Reliable Index	This measure is based upon a number of leading indicators ("preparedness") and lagging indicators ("response"), which are averaged to produce a corporate result. The lead indicators are based upon the percentage completion of emergency equipment checks and maintenance, the percentage completion of emergency exercises, the number of presentations completed for First Responders and contractors, and the number of landowner contacts. The lag indicators focus on line hits, the number of spills, and the number of emergencies where the response was not in accordance with corporate procedure.
Safety and Integrity	This new measure for 2012 reflects, as a percentage, the current year of integrity capital spending against the Corporation's assets as of 15 years ago. In general, older assets require greater attention from an integrity perspective, and thus it is appropriate to measure integrity spending against these older assets. SaskEnergy is currently in a significant growth period, which would have skewed the measure if current year assets had been used. In 2012, the target is 4.0 per cent, which is up significantly from 2011 (2.5 per cent), reflecting the Corporation's increased focus on safety and integrity.

OUR PEOPLE

Employee Engagement

Employee Survey	SaskEnergy measures employee engagement annually using the Hay Survey. A major survey is completed every two years, typically in the fourth quarter, and a micro survey is done in the alternate year. The Hay Group benchmarks survey results to their "public sector norm", as defined by the survey results of approximately 50 Canadian public sector organizations including Crown Corporations. The major survey incorporates employees' opinions on a number of areas including satisfaction with pay and benefits, job opportunities, work/life balance, and training and developmental opportunities within SaskEnergy/TransGas.

Physical Safety

Reportable Injury Rate	This measure is a composite of two separate metrics: • Lost Time Frequency Rate – measures the frequency in which lost time injuries have occurred. A standard duration is used to normalize the results so that company comparisons can be made despite differing workforce sizes. A lost time injury is an injury that resulted in lost work time following the day of the injury. • Medical Aid Frequency Rate – records the frequency of injuries that require medical attention. Results are normalized so that company comparisons can be made despite differing workforce sizes. A medical aid injury is an injury that requires medical attention, but no working time is lost beyond the day of the injury.
Preventable Vehicle Collision Frequency Rate	The preventable collision frequency rate expresses the frequency of preventable collisions and normalizes the result to enable equitable comparisons with other companies of different size and scale of operations. The formula to calculate the measure is as follows: Preventable Collision Frequency Rate = number of preventable collisions* 1,000,000[1] / total kilometers driven. [1] The 1,000,000 is the given standard used by the Canadian Gas Association and Canadian Energy Pipeline Association to facilitate company comparisons.

Workplace Diversity

Workplace Diversity	The workplace diversity measures provide quantitative data for the employment of the four equity groups recognized by the Saskatchewan Human Rights Commission as being either underemployed or minimally employed within the Province. These four groups include Aboriginal, Women, People with Disabilities and Visible Minorities. SaskEnergy also tracks the percentage of "Youth" in the workforce, which is defined as employees who are 30 years of age or less. The measure is calculated by comparing the number of employees from these groups relative to the number of total employees that comprise the workforce.

SUPPLEMENTARY INFORMATION

GLOSSARY OF NATURAL GAS MEASUREMENTS

Joule (J) – a base metric measure of energy. One J is the equivalent of the energy required to raise the temperature of one gram of water by approximately one quarter of one degree Celsius.

Gigajoule (GJ) – a measure used to express the energy value of natural gas or of energy consumed. One GJ is equivalent to one billion J. A typical home in Saskatchewan uses about 110 GJ of natural gas per year.

Terajoule (TJ) – a unit of energy equivalent to 1,000 GJ.

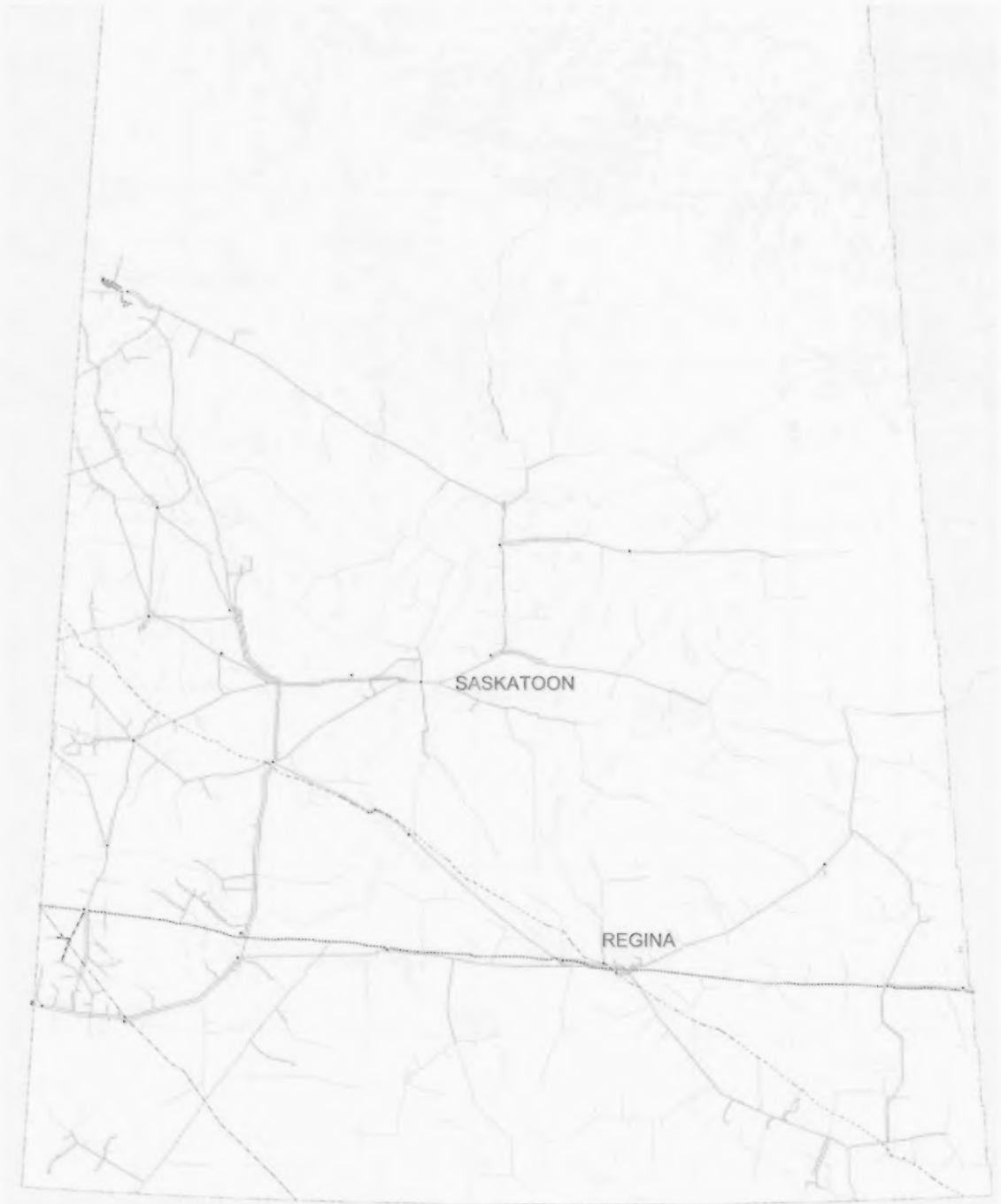
Petajoule (PJ) – a unit of energy equivalent to 1,000,000 GJ.

Cubic metre (m^3) – a unit of volume measurement commonly used to express the amount of natural gas sold to consumers. The typical home in Saskatchewan uses about 2,800 m^3 of natural gas per year.

Natural Gas Volume Equivalents at Normal Atmospheric Pressure

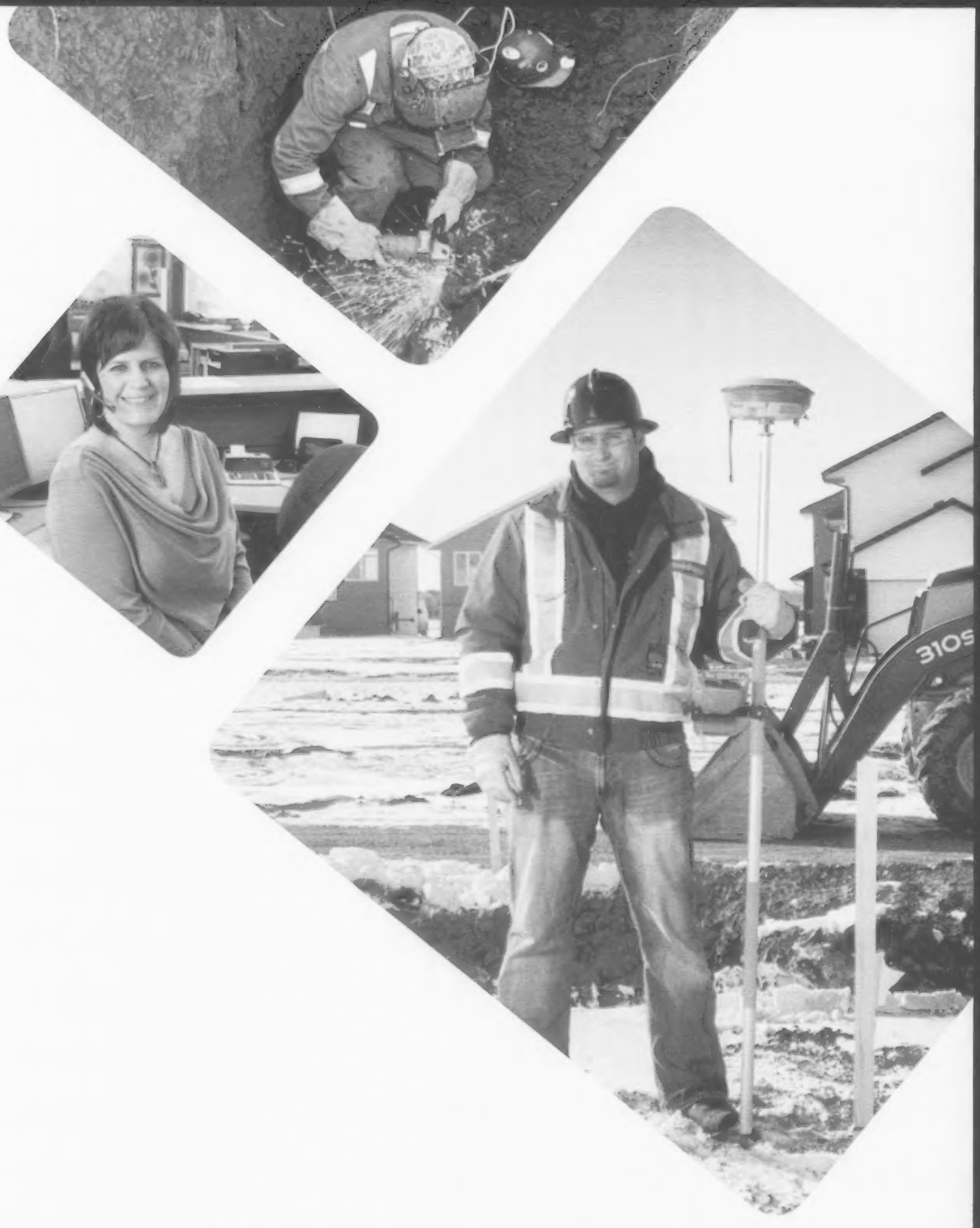
- One GJ of natural gas would approximately fill an 11-foot by 11-foot by 8-foot room (approximately 1,000 cubic feet).
- One TJ of natural gas would fill a typical professional hockey arena (approximately 1,000,000 cubic feet).
- One PJ is enough natural gas to fill 17 sports stadiums the size of the Rogers Centre in Toronto (approximately 1,000,000,000 cubic feet).

SASKENERGY INCORPORATED NATURAL GAS TRANSMISSION PIPELINES



SaskEnergy

1000-1777 Victoria Avenue
Regina, Saskatchewan S4P 4K5
saskenergy.com



2011 **ANNUAL REPORT**
SUPPLEMENTARY INFORMATION

Stakeholder Engagement
Corporate Governance Disclosure

SaskEnergy

STAKEHOLDER ENGAGEMENT

COMMUNICATIONS MODELS EMPLOYED AT SASKENERGY

Strong two-way communications models support the achievement of business and corporate results. The Corporation is committed to rigorous and professional communications practices that support the principles of timeliness, openness and transparency with its stakeholder.

CUSTOMER AND PUBLIC COMMUNICATIONS

Continued business growth at SaskEnergy has entailed continued contact with the Corporation's base of nearly 360,000 customers. To this end, an estimated more than one million direct interactions occur annually between the company and customers. In addition to standard customer billing and meter reading inquiries, growth has occurred relative to the *Sask 1st Call* service, which provides initial customer contact for 30 companies with underground facilities, including SaskEnergy and TransGas. To successfully manage increasing customer contact within the existing cost structure, SaskEnergy has also instituted response specialization at its 11 regional customer service offices. For example, the Weyburn customer service office acts as a clearing centre for all web-related inquiries.

TransGas fosters personal contact with its smaller transportation and storage customer base of less than 200 through dedicated account representatives. It also promotes contact through the TransGas Customer Dialogue Process, where customer rates and operational policies are jointly addressed before recommended implementation.

SaskEnergy also effectively works with the plumbing, heating and mechanical contracting industry, which is highlighted by the Industry Dialogue process and the creation of the SaskEnergy Network, through which 140 private sector plumbing and heating contractors can use the SaskEnergy brand to deliver downstream services to natural gas customers.

Critical corporate initiatives, such as creating public awareness around energy efficiency and public safety ("Call Before You Dig"), are also promoted through multi-media advertising and communications campaigns, as well as direct-contact programs, such as contractor safety breakfasts, first responder training sessions and landowner mail outs.

SaskEnergy has a strong commitment to providing safe and reliable service to customers, ensuring they understand how to use natural gas safely and that we respond in a timely manner. This includes public awareness about what customers should do if they smell natural gas.

Due to natural gas-related incidents associated with provincial weather conditions, in 2011, SaskEnergy initiated an additional campaign to promote odourant safety, with particular attention paid to areas of the Province subject to ground shifting. The campaign included radio, direct mail, and print advertising, as well as signage in selected Regina neighbourhoods. Subsequent market research indicated that the responsive media communication and paid advertising did help to increase confidence among customers across the Province, while raising public awareness about the importance of reporting natural gas odour.

Major corporate initiatives, such as changes to the Corporation's delivery or commodity rates, are communicated through news conference and public events, and are supported through information distributed through SaskEnergy's website and on customer bills. Enhanced tools, such as e-billing and equalized payment plans, allow customers greater control over the management of their natural gas bills. The Corporation continues to analyze the usage of social media tools in its utility business context.

The SaskEnergy website also provides access to corporate information, such as quarterly financial updates and annual reports, energy efficiency- and safety-related information, as well as career opportunities and a streamlined process for charities and non-profits to request financial support through the Corporation's community investment program.

The high level of efficacy and support for SaskEnergy's and TransGas' customer communications approach is reflected through ongoing high levels of customer satisfaction in its independent surveys.

Shareholder Communications

As a Crown corporation, SaskEnergy complies with the communications requirements set by the shareholder and by statute, in accordance with the Board-approved external communications policy. Through the Board Chair, the Board is accountable to the Minister Responsible for SaskEnergy. The Minister functions as a communications liaison among the Corporation, Crown Investments Corporation, Cabinet, the Provincial Legislature and the public.

SaskEnergy fully complies with its statutory obligations for approval and disclosure of information. These responsibilities include:

- Annual approval of the Corporation's business/ performance management plan, including capital expenditures through its holding company, Crown Investments Corporation.
- Annual disclosure through Crown and Central Agencies, a public legislative committee of government, of all payments of over $50,000 to employees and suppliers, and of all grants, donations and sponsorships of over $5,000.
- Appearances before public committees of the legislature, including Crown and Central Agencies, by senior executive to answer questions relating to the business of the Corporation in preceding years.
- Compliance with public requests for information, balancing the interests of *The Freedom of Information and Protection of Privacy Act*.

SaskEnergy also works cooperatively with CIC, the office of the Minister Responsible for SaskEnergy and Executive Council Communications to generate dialogue, understanding and support for corporate initiatives that affect stakeholders. These communications tools include briefing notes, face-to-face meetings and/or other information packages to ensure elected officials are able to represent the Corporation in public and through the media, by speaking knowledgably on issues regarding the business operations of SaskEnergy. The Corporation is also expected to respond expediently to correspondence and case work submitted by the office of the Minister Responsible for SaskEnergy.

Project-based Communications

SaskEnergy's distribution, transmission and storage projects can have impacts on the communities in which they are occurring. In addition to fully complying with all legal and regulatory considerations, SaskEnergy will typically hold consultations with affected stakeholders in areas where projects are of greater scope or longer duration. Such communications initiatives include public open houses and meetings with local municipal councils, First Nations representatives and other stakeholders. These initiatives allow company officials to explain the environmental impacts of proposed activities, including proposed mitigation plans. They also provide opportunities to enhance general understanding of the projects economic benefits and of natural gas as a heating source. Because Saskatchewan has approximately 75 First Nations Bands and 11 Métis Regions, a dedicated Aboriginal Relations group exists to better foster consultation, dialogue and relations.

Regulatory Communications

SaskEnergy is required to file any applications for delivery and commodity rate changes with the Saskatchewan Rate Review Panel (SRRP), an advisory Panel that provides formal recommendations to the Provincial Cabinet. The applications are available to the public. Typically, the SRRP will ask for additional information to assist in its review, and a public interaction component is provided through public meetings. SaskEnergy now has its lowest commodity rate since 2001, and continued to have the lowest residential delivery rate in Canada in 2011. SaskEnergy did not file a commodity or delivery service rate application in 2011.

TransGas' proposed rate changes are discussed through the TransGas Customer Dialogue, a proxy with representatives from the producer, industrial end-user and gas marketer communities. After rate changes are discussed through Dialogue, they are provided to the Provincial Cabinet for approval. TransGas rates did not change in 2011.

Employee Communications

SaskEnergy regularly communicates with its workforce of over 1,000 employees to ensure prompt and accurate delivery of corporate information.

A primary method of communication is the InfoFlash (a corporate memo containing relevant, business-related information) that is delivered via e-mail to all employees within the company. In addition, SaskEnergy also employs a corporate Intranet site. This communication medium allows employees to access information related to the Corporation, stay informed on upcoming events and initiatives and link to internal departmental sites for specific departmental-related information. To ensure the accuracy and quality of information provided, Innergy offers a two-way communication medium for employees to submit feedback regarding information on the website.

SaskEnergy produces a bi-annual newsletter called Our Energy. Issues are delivered to all employees, as well as superannuates, upon request. The Our Energy newsletter features articles related to corporate and employee initiatives that are taking place throughout the Province. The Corporation also produces bi-annual corporate videos that serve as informative, educational tools to keep employees up-to-date on major projects that are taking place within the Corporation.

SaskEnergy also maintains an "Open Line to the President", a forum whereby employees are able to submit questions or comments for Executive response. Posted responses are available for all employees to view.

In addition to the mediums mentioned above, SaskEnergy supports the use of meetings, presentations and face-to-face communication to deliver important messages to employees, such as safety messages, business and strategic plan information and employee survey results.

CORPORATE GOVERNANCE DISCLOSURE

BOARD STEWARDSHIP/MANDATE

The SaskEnergy Board of Directors (the Board) is responsible for the stewardship of the Corporation, and oversees and closely monitors the Corporation's adherence to provisions of *The SaskEnergy Act* and Regulations. The Board has adopted written Terms of Reference which state that the Board sets the strategic direction, ensures the integrity and adequacy of the Corporation's systems and management practices, and periodically examines the objectives and mandates of its structure. The Board promotes a culture of integrity, ensures that the principal corporate risks are managed, and evaluates the performance of, and monitors, financial results.

BOARD COMPOSITION

SaskEnergy's Board is representative of the Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints up to 12 members, and designates a Chair and a Vice Chair. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, initiative and sound judgment. There are currently 12 people appointed to SaskEnergy's Board of Directors. These same 12 people are also appointed as members for the Boards of Directors for each of SaskEnergy's 11 subsidiary companies. The Board Chair is Mr. Robert Pletch, Q.C. and the Vice Chair is Ms. Nadine Krenosky.

INDEPENDENCE

The matter of "independence from management" is based upon the definition set by Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the Directors have been employed with the Corporation. In this reporting period, none of the Directors have *direct* material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation. However, three Directors are partners in law firms that have performed legal services for the Corporation in 2011, and are thereby deemed to have a material *indirect* relationship with the Corporation under the above standard. The majority of Directors are independent, however, the Corporation is not in strict compliance with the CSA independence standard. The Corporation's Owner, the Crown Investments Corporation of Saskatchewan (CIC), has managed this independence issue through the development of a Protocol Regarding Lawyers Serving on Subsidiary Crown Corporation Boards of Directors. This Protocol adopts the principle that Directors must be free from any material relationship that may interfere with the Director's ability to exercise independent judgment in the best interests of the Corporation or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the Protocol restricts Directors from any direct material relationship, but allows a limited indirect relationship subject to the qualifications of the Protocol such as pre-approval of legal services by an independent Board Committee, declarations of conflict, no direct benefit to the Director, and restriction of information to that Director. The Board has appointed a special ad hoc Committee of independent non-lawyer Board members to review and approve the Corporation's external legal service providers in accordance with this Protocol on an as-required basis. In 2011, this ad hoc Committee met once for this purpose. The Board Chair, Robert Pletch, Governance Committee Chair, James Rybchuk, and Safety and Corporate Social Responsibility Chair, David Bishop, are lawyers who are subject to this Protocol and throughout this disclosure are indicated by an asterisk to reflect that they are not independent, due to the deemed material indirect relationship. All other Directors, including the Vice Chair of the Board are independent of management. At each Board and Committee meeting the agenda provides for all Directors to meet in-camera without the presence of management.

COMMITTEE MANDATES AND MEMBERSHIP

The Board fulfills its oversight responsibilities for the operation of SaskEnergy by utilizing its five Board Committees. The Terms of Reference or mandates of the Committees are reviewed annually, and updated where required. The Terms of Reference for each Committee establish the constitution, operations and areas of responsibility over which that Committee makes recommendations to the Board. Full details of the Terms of Reference for each Committee can be found on SaskEnergy's corporate website at www.saskenergy.com/about_saskenergy/governance.asp. Committees have also adopted work calendars to schedule and fulfill specific tasks and assigned responsibilities. Each Committee has the authority to engage and compensate outside advisors that it deems necessary to assist with its mandate.

Audit and Finance Committee

Chair: Nadine Krenosky

Members: Grant Gayton, Neal Krawchuk, Alfred Labas, Robert Pletch*

The Audit and Finance Committee oversees the financial performance and ensures the integrity, effectiveness and accuracy of the Corporation's financial reporting, control systems, risk management and audit functions. The Committee ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall Strategic Plan, annual Business Plan and public policy objectives. The Committee meets regularly outside the presence of management with the appointed external auditor, the Provincial Auditor and Internal Auditors.

Except as qualified previously, all members of the Audit and Finance Committee are independent of management. All Committee members are financially literate, as that term is commonly defined with respect to the composition of audit committees within the CSA Multilateral Instrument 52-110, and their education and experience in understanding financial matters is addressed in their biographies on the governance portion of the SaskEnergy website.

Important issues dealt with this year include the development of various Commodity Strategies to cover all natural gas transactions, the business case analysis of an Advanced Metering Infrastructure solution, reviewing the results of a third-party corporate Operational Review and a third-party Corporate Spend review, and, detailed analysis and evaluation of existing options to purchase the corporate head office building. The Committee also dealt with SaskEnergy commodity rate reviews and with a TransGas Limited service rate adjustment, as well as TransGas system expansion.

*Non-independent Board Member

Business Development Committee

Chair: Jim Baker

Members: Curt Chickoski, Grant Gayton, Mitch McLeod

The Business Development Committee provides guidance that enables SaskEnergy to grow in a more strategic direction in alignment with SaskEnergy's natural gas storage expertise, adding value to the industry, and innovation in energy efficiency in support of the environment, through technology and processes. The Committee is comprised of members who assist the Board in oversight of new strategic and tactical investments and business opportunities.

This year, notable work of the Committee included focus on the monetization of the Corporation's international investments, support for expansion of TransGas storage capacity within Saskatchewan through the optimization of existing natural gas storage fields, and conversion of a new field through a third-party joint venture. The Committee oversaw the completion of projects on waste heat capture electrical conversion. The Committee reviewed and recommended to the Board a Corporate Business Growth Plan for 2012–2016.

Governance Committee

Chair: James Rybchuk*

Members: Sharon Hodgson, Mitch McLeod, Victor Thomas

The Governance Committee is responsible for matters relating to SaskEnergy's corporate governance regime. It has input into the selection criteria for candidates for Board members, Chairs, and creates profiles of the desired skills, experience and competencies required of Directors. An ad hoc Board Committee is created when necessary to identify and recommend to the Board candidates for the position of President and CEO, while the Governance Committee oversees that the incumbent fulfills the role set out in the CEO Mandate. This Committee monitors compliance with the Corporation's Code of Business Conduct and Ethics, and any waivers therefrom. The Committee is charged with planning orientation and education programs to keep Directors informed and current with business and ethical requirements.

Key work of the Committee in 2011 included coordinating the Committees, Committee Chairs and Board Member peer evaluation process, the business/industry training for Directors, reviewing quorum requirements for the Board, reviewing the delineation and delegation of decision-making and expenditure authority levels between the Board and management, reviewing new legislation regarding employee disclosure of wrongdoing, and the organization of a field tour in 2012 for Board members.

*Non-independent Board Member

Human Resources/Compensation Committee

Chair: Victor Thomas

Members: David Bishop*, Nadine Krenosky, Robert Pletch*, James Rybchuk*

The Human Resources/Compensation Committee is responsible for, and assists the Board in, overseeing the management of SaskEnergy's human resource strategic planning, programs and practices for the development and implementation of fair compensation, performance management and succession planning. The Committee also sets the CEO's performance goals and objectives and conducts a detailed semi-annual assessment of the CEO's performance against them through the Committee Chair. The findings of this evaluation and any changes to the CEO's compensation as a result of the review are recommended to the Board. Further, the Committee makes recommendations to the Board regarding the approval of employee and Executive compensation, including measures and targets.

receiving direction on its mandate through communication with the shareholder, CIC.

A key initiative of the Committee in 2011 was the review and recommendation for Board approval of a Collective Bargaining Agreement with the employee union, CEP, Local 649.

*Non-independent Board Member

Safety and Corporate Social Responsibility Committee

Chair: David Bishop*

Members: Jim Baker, Sharon Hodgson, Neal Krawchuk

The Safety and Corporate Social Responsibility Committee has a mandate to proactively address safety, and corporate social responsibility ("CSR") matters to assist the Corporation in being a corporate leader. The Corporation considers CSR to include: conducting business in a socially responsible, ethical and transparent manner, protecting the environment and safety of all individuals affected by our activities, listening and responding to community or stakeholder concerns, supporting human rights, and engaging learning from respecting and supporting the communities and culture with which we work. The Committee mandate includes the obligation to ensure that adequate and effective controls are in place to monitor CSR risk and compliance with regulatory and statutory requirements.

Important issues dealt with this year included the external, independent Health & Safety Audit, which demonstrated a favourable benchmark of SaskEnergy's safety management system against industry norms and maintained its Certificate of Recognition. The Committee reviewed the Corporation's Enhanced System Inspection Vigilance program, significant safety-related litigation matters, the Community Investment Policy, the Corporate Environmental Risk Management and a report relating to environment and sustainability.

*Non-independent Board Member

ROLES AND RESPONSIBILITIES

The roles and responsibilities of the Chair, Committee Chairs, individual Directors and the President and CEO are set out in written Position Descriptions and posted on SaskEnergy's website. The role of the Chair is to provide leadership in Board organization, processes, effectiveness and renewal, balancing the roles of the Board and management in the course of the Board discharging its fiduciary and legal responsibilities.

Individual Directors have a Position Description that sets out the roles and responsibilities of Directors, including legal requirements, accountability, stewardship, knowledge and education, conflicts, confidentiality, as well as expectations for attendance and review of materials in preparation for meetings.

The CEO's Mandate sets out the principal duties and responsibilities for the President and CEO to meet. These form the goals and objectives of the President and CEO and are incorporated into annual performance objectives against which the Human Resources/Compensation Committee measures the CEO's performance. The CEO Mandate was reviewed and updated in 2010 by the Governance Committee and the Board.

To further assist in the delineation of roles and responsibilities assigned to management, the Board regularly reviews the authority it delegates to management through a series of execution and expenditure authorization policies, considering updates as organizational and business circumstances change. Additional limits are placed upon both management and the Board through legislation requiring Orders in Council, compliance with investment requirements or changes to legislative mandate through *The SaskEnergy Act*. The Board has also approved a Bright Line Mandate which is a decision-making matrix that sets out the ultimate decision-making body on key matters and is validated by the Board annually.

STRATEGIC PLANNING AND REPORTING

One of the Board's principal duties is to provide leadership in setting the long-range strategic direction and to approve SaskEnergy's overall Strategic Plan. This comprehensive strategic planning process results in the review and approval by the Board of the Corporation's Strategic Plan, annual operating and capital budgets and Business Plan.

The Board of Directors participates with management to identify and set long-term goals for SaskEnergy through the strategic planning and business planning process. The corporate Business Plan involves a five-year rolling projection, updated annually. The Board oversees this process, providing input, guidance, validation, and critical evaluation of the Business Plan, Strategic Plan and its initiatives. The Board continues to provide oversight, and support in the implementation of the plans and initiatives and to measure their success. Each year, the Board and senior management meet jointly to identify strategic risks, and review strategies and measurable targets to gauge performance in managing those risks.

PUBLIC POLICY ROLE

SaskEnergy is a statutory Crown corporation governed by *The SaskEnergy Act* and Regulations. By legislation, CIC is the holding corporation for all of Saskatchewan's commercial Crown corporations. CIC has the authority to establish direction for SaskEnergy related to matters set out in legislation.

As a provincial Crown corporation, SaskEnergy serves a public policy role. Its mission is to develop and deliver safe, reliable natural gas solutions that benefit its customers and Saskatchewan through its team of dedicated employees and business alliances. SaskEnergy and its subsidiaries fulfill this mission through the operation of systems for natural gas distribution, transmission, storage, line locating and other related activities to promote conservation and the safe use of natural gas, while contributing to and promoting the economy of the Province. CIC annually approves SaskEnergy's Business Plan and sets any other strategic priorities which the Corporation's performance will be measured against by the Owner. SaskEnergy, together with other Saskatchewan Crown corporations, collaborated to further CIC's stated priorities to enhance efficiency gains through joint initiatives, and to promote an open business environment.

APPROACH TO GOVERNANCE

Although SaskEnergy is not legally obligated to comply with the Canadian Securities Administrators ("CSA") governance guidelines, as it does not have share capital and is not a reporting issuer, it tries to follow those that are applicable and has benchmarked its governance practices against the CSA National Policy and Instrument Guidelines, guidelines of the Canadian Institute of Chartered Accountants (CICA), observations of the Federal Auditors, Treasury Board and Conference Board of Canada, to address key performance indicators in the measurement of governance. The practices of SaskEnergy are substantially consistent with the foregoing standards as published.

INTEGRITY AND ETHICS

SaskEnergy promotes a strong culture of ethical business conduct at all levels of the Corporation. The Board has approved and adopted a written Code of Business Conduct and Ethics (the Code) which is applicable to employees, officers and Directors of SaskEnergy. The Code, which is designed to promote integrity and deter wrongdoing, is based on values of fairness and honesty, equal treatment and accountability. The Code provides guidelines on handling information and protection or use of corporate assets, confidentiality, conduct with suppliers and customers, business history, international business, conflicts of interest, compliance with laws and policies and reporting.

To further promote public confidence in the integrity of SaskEnergy and its employees, a Whistleblower Policy was adopted which sets out a formal process for the reporting, investigation and appropriate follow-up for actual or potential wrongdoing. In 2011, the *Public Interest Disclosure Act* was enacted to provide employees with an additional mechanism to disclose any wrongdoing. In addition, SaskEnergy's Owner requires public disclosure to the police of all losses over a threshold of $200, and public disclosure to the Board, CIC Board, and Minister of all losses over $500, pursuant to the Reporting of Losses Policy and processes.

Compliance with the Code is verified through mandatory training of all employees, and acknowledgement by an online tool. The Code and the Whistleblower and Reporting of Losses Policies are posted on the SaskEnergy intranet site for employees, and the Code and Whistleblower Policies are on SaskEnergy's website for public access. A process is also posted on the website for members of the public to contact the Chair of the Governance Committee of the Board in confidence, to report any potential violation of the Code or Whistleblower Policy.

Management monitors and reports on any issues arising under the Code annually, the Whistleblower Policy semi-annually, and the Reporting of Losses Policy quarterly, to the Governance and Human Resources/ Compensation Committees who are charged with oversight of compliance with these two policies.

In addition to the Code, SaskEnergy's Directors are required to abide by CIC's Directors' Code of Conduct. The Governance Committee, appointed as Ethics Advisor for this purpose, is required to administer, monitor and enforce the Directors' Code of Conduct, which includes reporting annually to the Board concerning compliance. It is also standard procedure to commence all Board and Committee meetings with an agenda item providing Directors with an opportunity to declare any conflicts of interest or any changes to outside employment or directorships they hold, which may create a potential or perceived conflict of interest. Upon appointment, Directors declare directorships on and material interests in other business and any material contract entered into with SaskEnergy or its subsidiaries to the Governance Committee who works proactively to address any potential conflicts of interest. Agenda items are monitored by management, and those containing any item which a Director has disclosed a material interest in are not distributed. Likewise, any Director subject to CIC's Protocol Regarding Lawyers Serving on Subsidiary Crown Corporation Boards of Directors will recuse themselves from consideration of any item creating a potential conflict of interest. In 2011, there were no waivers granted by the Board to any Directors or Officers authorizing non-compliance with these policies.

RISK IDENTIFICATION AND MANAGEMENT

SaskEnergy has a risk management process which is designed to identify potential events that may impact SaskEnergy and oversee the management of risk within accepted tolerance levels. Senior management holds primary responsibility for identifying inherent risks, and designing and implementing initiatives to mitigate them. The Board expects management to manage these risks through the use of appropriate controls and delegations of authority. In 2011, a formal Enterprise Risk Management Policy was developed by management and was approved by the Board of Directors.

Each year, the Board and senior management independently follow a process led by Internal Audit with the assistance of a consultant to identify and prioritize significant risks, both residual and inherent. A report is prepared by the Director of Audit Services that summarizes the independent risk assessment findings of both the Board and management. This report is brought forward to be discussed at a Board meeting where senior management and the Board review the variations and risk mitigation plans to deal with or manage the residual risks.

The Business Plan addresses and implements solutions for key risks. The Board will monitor the risk management programs and oversee implementation of appropriate systems to manage those risks either directly, or through the Audit and Finance Committee. The Audit and Finance Committee regularly reviews the reports and will discuss significant risk areas with the internal and external auditors.

INTEGRITY OF INTERNAL CONTROLS AND MANAGEMENT SYSTEMS

The Board and Audit and Finance Committee receive reports from, and work closely with, the internal and external auditors to promote financial transparency and ensure the integrity, effectiveness and adequacy of SaskEnergy's internal controls and management information systems.

As part of the commitment to accountability, the Audit and Finance Committee reviews the financial performance of the Corporation quarterly. Natural gas purchase transactions and credit risk are reported by management and actively monitored by the Audit and Finance Committee.

Pursuant to the directive of CIC, SaskEnergy has in place a process regarding internal controls certification by the CEO and CFO. This process is designed to provide reasonable assurance regarding the effectiveness of SaskEnergy's internal controls over financial reporting.

On January 1, 2011 SaskEnergy implemented the International Financial Reporting Standards ("IFRS") reporting SaskEnergy's external auditors have performed audit procedures on the IFRS conversion, including examination of policy choices and transitional adjustments as at January 1, 2010. As part of the December 31, 2011 year-end audit, the external auditors have provided an opinion that the Corporation's financial statements are in accordance with IFRS. SaskEnergy has also collaborated informally with CIC and other Crowns corporations to develop a consistent approach in the application of accounting principles.

The Board oversees the annual external audit plan of the appointed external auditor for the audit of the Corporation's annual financial statements, and the annual Internal Audit plan carried out by SaskEnergy's Internal Audit group. To preserve the independence of the role of the external auditors, the Audit and Finance Committee must pre-approve all non-audit services undertaken by the external auditor in accordance with the Corporation's Non-Audit Services Policy.

SUCCESSION DEVELOPMENT

A succession plan for key management positions and leadership development initiatives is reviewed annually by the Human Resources/Compensation Committee to ensure continuity and depth throughout the Corporation over the long term. The review identifies employees who are in a position to replace incumbents and plans are identified for those who require further training or development for leadership positions. The adequacy of the succession planning strategy as outlined by Executive officers is also reviewed quarterly. The Board supports SaskEnergy's commitment to the training and development of all employees.

COMMUNICATIONS (WITH THE SHAREHOLDER AND STAKEHOLDERS)

SaskEnergy is committed to the principles of transparency, openness and timeliness in communication with its Owner, employees, stakeholders and the public. SaskEnergy regularly surveys employees and external stakeholders for feedback on its corporate activities and more information on these communications can be found in the MD&A section. The Corporation complies with the communication requirements set by the shareholder and by statute, in accordance with the Board-approved external communications policy. Through the Board Chair, the Board is accountable to the Minister Responsible for SaskEnergy. The Minister functions as a communication liaison among the Corporation, CIC, Cabinet, the Provincial Legislature and the public.

SaskEnergy strives to strike a balance between transparency and maintaining customer confidentiality in matters of communication and disclosure, as an entity subject to the *Freedom of Information and Protection of Privacy Act*. The Corporation is subject to annual disclosure requirements of the Legislative Committee regarding Crown Payee Disclosure on all payments over $50,000 to employees and suppliers, and for all grants, donations, and sponsorships over $5,000. All major public disclosures of corporate performance of the Corporation are subject to prior approval of the Board. Senior Executive members of SaskEnergy also appear before Legislative Committees to answer questions relating to the business of the Corporation in preceding years.

To facilitate feedback to and from the statutory Owner, the Board Chair is in communication with CIC, and also participates in a CIC Chairs forum where communication and feedback is provided on its expectations of all Saskatchewan Crown corporations. SaskEnergy's President and CEO regularly provides briefing materials to the Minister Responsible for Crown Investments Corporation and the Minister Responsible for SaskEnergy.

CEO ASSESSMENT AND EXECUTIVE COMPENSATION

The CEO's performance is assessed semi-annually against objectives approved by the Human Resources/ Compensation Committee which are related to the CEO Position Description and aligned with shareholder public policy objectives and the corporate Strategic Plan.

The governance standard established by the CSA for Executive compensation disclosure is to report by summary compensation table, complete with detailed formulas. The mandate for Executive compensation for Saskatchewan Crown corporations however, is established and monitored by the Owner, CIC, and as such, senior management compensation aligns with the guidelines established by CIC. Given these controls on Executive compensation, both the Board and senior management seek to provide information to the Owner, and any management compensation adjustments must fit within the parameters established by the Owner. The philosophy of providing market-based compensation is applicable throughout the Corporation, from senior management downwards: to set performance objectives and expectations at individual, departmental and corporate levels, and to work towards and measure the achievement of these performance objectives. A key principle in SaskEnergy's compensation strategy is to provide fair and equitable pay representative of the individual performance of management employees. The Human Resources/Compensation Committee and the Board approve CEO and Executive compensation.

Direct reports of the CEO, including all Executive members, are required by legislation to file and report the details of their compensation and benefits and any changes to the Clerk of the Saskatchewan Legislature within 14 days. In addition, the Crown and Central Agencies Committee of the Legislative Assembly of Saskatchewan has, by policy, required Crown corporations, including SaskEnergy, to file an annual payee list which includes the total compensation of Executive members. The report is available on CIC's website at www.cicorp.sk.ca in the Publications section under Reports. The Human Resources/Compensation Committee and the Board annually review the details of these compensation payment reports.

BOARD RENEWAL AND APPOINTMENT

Appointment of Directors is ultimately made by the Government by Order in Council, upon recommendation of CIC and the Board of Directors. The Board, through the Governance Committee, undertakes an analysis of the skills and experience necessary for the composite blend, and full functioning of the Board and its Committees, and makes nomination recommendations, through the Board to the Minister Responsible for Crown Investments Corporation. The Governance Committee is charged with leading the process to identify, recruit and recommend qualified candidates for appointment to the Board, and assessing the skills and competencies for the Board and its Committees to support the strategic direction and operational needs of the Corporation. The Committee performs a skills gap analysis intended to assist in achieving a balance of the skills of Board members through the recruitment/appointment of new members. The Governance Committee may meet with potential candidates to assess the overall fit with the blend of skills and experience of the current Board, time availability or any potential conflicts that could limit their full participation. The Governance Committee also makes annual recommendations to the Board regarding the appropriate structure, size and composition of the Board and its Committees, as well as the required qualifications.

BOARD ORIENTATION AND EDUCATION

The Governance Committee and the Corporation, under its Board of Directors Training Policy, has a comprehensive orientation curriculum and training sessions to ensure that new and continuing Directors develop a strong understanding of SaskEnergy's business and current challenges as well as the roles of the Board and Committees and the individual contributions Directors are expected to make. Board members also participate in continuing education on industry issues, financial reporting, business operations, procedural issues and ethical obligations to enhance their skills, abilities and knowledge currency.

For 2011, the Board of Directors received training from management on the physical operations of the Corporation that included the business aspects, the risks to the assets, industry profiles and comparisons, and the future of the Corporation's system and operations. CIC also facilitates additional Director training as part of its Subsidiary Crown Directors Training Program, in collaboration with the Conference Board of Canada and the Directors College, DeGroot School of Business at McMaster University, allowing Directors the external development opportunity to challenge for certification through this program, where authorized by the Board or the Corporation. Board members also interact with management and employees attending such functions as employee service awards, or touring corporate offices or business units at Board meetings.

BOARD AND DIRECTOR PERFORMANCE ASSESSMENT

The Governance Committee is responsible for implementing performance reviews for the Board, Committees, Chairs and individual Directors. It surveys the Directors to obtain feedback on the effectiveness and contribution of the Board, Committees, Chairs and individual Directors on a rotational, bi-annual basis. These results are summarized and reported to the Board as well as to the CIC Board. The Governance Committee may utilize the assistance of an external consultant to conduct this task. The Committee also conducts ongoing assessments of individual Directors, their training and skill sets. For 2011, the process consisted of a Directors' survey on the performance and effectiveness of the Committees, Committee Chairs and Board member peers. This survey was conducted with the assistance of an independent third party service provider.

DIRECTOR REMUNERATION

Compensation received by Directors is fixed by CIC under the *Crown Corporations Act, 1993*. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to such compensation. The Audit and Finance Committee receives quarterly reports respecting the remuneration of Directors and reports any anomalies to the Board. Directors are paid an annual retainer for their services on SaskEnergy's Board, as well as a set per diem fee for travel time and attendance at Committee and Board meetings as follows:

- Chair of the Board: annual retainer of $15,000 and $900 Chair meeting fee;
- Other Directors: annual retainer of $10,000 and $700 meeting fee;
- Chairs of Committees: $800 Chair meeting fee;
- Vice Chair of the Board: receives Chair meeting fee when acting in that capacity, just as the Committee Chairs receive their respective Chair meeting fee while acting in that capacity, but not as a regular Committee member; and
- Directors also receive reimbursement for their reasonable out-of-pocket expenses including travel, meals and accommodations while performing their duties.

Most Board members sit on two Committees. There were 11 Board meetings and 32 Committee meetings in 2011. The total remuneration paid to Directors (annual retainers, pro-rated for the portion of the year each Director was a member of or chaired a Committee, plus per diems) was **$315,550** compared to $337,172 in 2010. The total business travel and meeting expenses paid to members of the Board were **$37,838** compared to $35,503 in 2010.

MEMBERSHIP AND ATTENDANCE AT MEETINGS OF THE BOARD AND BOARD COMMITTEES

from January 1, 2011, to December 31, 2011

Member	Board	Audit	Bus. Dev.	Gov.	HR/ Comp	SCSR	Legal Serv.	Total	%
Pletch	11/11	8/8			5/6			24/25	96
Baker	10/11		8/8			4/4	1/1	23/24	96
Bishop	11/11				5/6	4/4		20/21	95
Chickoski	11/11		8/8				1/1	20/20	100
Gayton	11/11	8/8	8/8					27/27	100
Hodgson	11/11			5/5		4/4		20/20	100
Krawchuk	10/11	7/8				3/4		20/23	87
Krenosky	11/11	8/8			6/6			25/25	100
Labas	11/11	8/8					1/1	20/20	100
McLeod	10/11		8/8	5/5				23/24	96
Rybchuk	11/11			5/5	6/6			22/22	100
Thomas	11/11			5/5	6/6		1/1	23/23	100

For purposes of this report, Directors who attended meetings in part were considered to be present.

SaskEnergy

1000-1777 Victoria Avenue
Regina, Saskatchewan S4P 4K5
saskenergy.com